28 February 2018

Admiral Group plc announces a record Group profit before tax of £405 million for the year ended 31 December 2017

2017 Results Highlights

	2017	**2016**	**% change[*3]**
Group's share of profit before tax	£405.4 million	£284.3 million	+43%
Group statutory profit before tax	£403.5 million	£278.4 million	+45%
Earnings per share	117.2 pence	78.7 pence	+49%
Full year dividend	114.0 pence	102.5 pence[*4]	+11%
Return on equity[*1]	55%	37%	+49%
Group turnover[*1]	£2.96 billion	£2.58 billion	+15%
Group net revenue	£1.13 billion	£1.02 billion	+11%
Group customers[*1]	5.73 million	5.15 million	+11%
UK insurance customers[*1]	4.62 million	4.12 million	+12%
International car insurance customers[*1]	1.03 million	0.86 million	+20%
Group's share of price comparison profit[*1]	£7.1 million	£2.7 million	+163%
Statutory price comparison result	£5.4 million profit	£2.9 million loss	
Solvency ratio (post dividend)[*2]	205%	212%	

Over 9,600 staff each receive free shares worth a total of £3,600 under the employee share scheme based on the full year 2017 results

[*1]Alternative Performance Measures – refer to the end of the report for definition and explanation.
[*2]Refer to capital structure and financial position section later in the report for further information.
[*3]The Group's share of profit before tax before the Ogden impact in 2016 was £389.7m. 2017's result is +4% v that adjusted figure. Refer to the end of this report for a summary of financial highlights disclosed in 2016.
[*4] 2016 dividend excludes additional return of surplus capital. Full year dividend including additional return was 114.4 pence.

Comment from David Stevens, Group Chief Executive Officer

"It's 25 years since the launch of Admiral. 2016 was only the second year we'd ever reported a year on year fall in profits. So it's great to be back in the groove, with a 23rd year of "record profits".

Beyond the pure financials, there's also a lot going on that helps build the longer-term prosperity of the Group – notably our investment in widening our product range (van, travel, loans in 2017) in a way that helps us attract more customers, and understand and serve better both new & existing customers.

Whilst lots of things have changed, some things have remained the same, including the importance we attach to our staff's well-being. After 17 years of featuring highly as one of the Best Places To Work in the UK, and 15 years in the European rankings, 2017 saw us make it onto the "Best Places in the World" rankings, coming a creditable 23rd."

Dividend
The Directors have proposed a final dividend of 58.0 pence per share (2016: 51.5p) representing a normal dividend (65% of post-tax profits) of 39.5 pence per share and a special dividend of 18.5 pence per share. The dividend will be paid on 1 June 2018. The ex-dividend date is 10 May 2018 and the record date is 11 May 2018.

Management presentation
Analysts and investors will be able to access the Admiral Group management presentation which commences at 9.00am GMT on Wednesday 28 February 2018 by dialling + 44 (0)20 3936 2999 and quoting 69 27 88. A copy of the presentation slides will be available at www.admiralgroup.co.uk

Directorate change
Following receipt of regulatory approval, the Board of Admiral is pleased to announce the appointment of Andy Crossley as an independent non-executive director and member of the Audit Committee with effect from 27 February 2018.

Andy has 31 years' experience within the financial services sector, most recently as Chief Financial Officer at Domestic & General Group from 2014 to 2017. He spent 14 years at Prudential Plc from 2000 as Director, Group Finance; Group Chief Risk Officer; and CFO and Deputy Chief Executive of Prudential UK. He previously held senior manager roles at Legal & General Group Plc, where he was Group Financial Controller, and Lloyds Bank Plc. Andy is a Fellow of the Institute of Chartered Accountants.

Annette Court, Admiral Group Chairman, commented:
"I am delighted to welcome Andy to the Admiral Board. Andy brings extensive knowledge and experience of the financial services sector which will complement and enhance the range of skills we currently have on the Board.

I'd also like to take this opportunity to congratulate David Stevens on being awarded 'Best Leader' by the Sunday Times for the second year running."

There is no further information which would require disclosure under 9.6.13R of the Listing Rules of the UK Listing Authority.

Chairman's Statement
On behalf of the Board, I would like to thank all the 9,600 people at Admiral for their continued hard work and contribution to a record-breaking set of results for the Group in 2017.

In 2018 we celebrate 25 years since the launch of the company in January 1993. The core of the company's success remains the distinctive Admiral culture which drives the way that our people work and serve our customers in the UK, Italy, Spain, France and the US.

I am delighted and honoured to have taken over the helm as the Chairman of Admiral at the AGM in April 2017. My predecessor, Alastair Lyons, who ably steered the ship for over 16 years has left some large shoes to fill. I would like to thank him for his service and enabling a smooth transition.

As Chairman of the Group I will focus my efforts on:

- Continuing to build on the remarkably special Admiral culture and in so doing putting our people and customers at the heart of what we do
- Continuing the history of growth, profitability and innovation
- Investing in the development and growth of our people
- Ensuring excellent governance and the highest standards.

2017 Overview

Admiral Group has delivered another record set of results in 2017: record turnover and profit, strong return on capital, strong solvency ratio and record customer numbers.

The Group has continued to grow strongly with turnover increasing by 15% to £2.96 billion. Customer numbers increased 11% to over 5.7 million.

The Group's share of pre-tax profit increased by 43% to £405.4 million. Earnings per share and return on equity both increased by 49% to 117.2 pence and 55% respectively. The Group's solvency ratio remains very strong at 205%.

In UK insurance, there was another strong performance from the Group's core UK Car business where the number of insured vehicles grew by 8% to 3.96 million. In line with usual trends, profitability benefited from significant prior year reserve releases. Whilst we devote time and resources to exploring new opportunities outside of car insurance we also recognise that this remains our core focus. We continue to invest heavily in improving our core skills as evidenced by our continuing growth in premiums and profit. We also have a range of innovations including Car Sharing insurance, Learner Driver insurance and we remain the largest telematics provider in the UK.

There is still a backdrop of uncertainty in our largest business, UK Car, due to the continued deliberations over the Ogden rate affecting large personal injury claims. We expect to see some conclusions on the way forward in 2018. In the meantime, we have taken a prudent approach and reflected the current discount rate in our reserves.

Household insurance continues to grow apace. Turnover is now £107.1 million and properties insured have increased by 41% to 0.7 million. Customers buy from us either using price comparison sites, directly and, increasingly, using our multi-cover offering, building on the success of multi-car.

2017 saw the successful launch of our in-house underwritten Van insurance product and, most recently, the launch of our new Travel insurance product.

Most significantly, we have launched Personal Loans, firstly unsecured, then car finance as part of our new Admiral Financial Services business. We expect this to be an increasingly significant part of our business in future.

We are continuing to invest in our overseas insurance businesses, bearing fruit with reduced losses overall (despite the impact of Hurricane Harvey in the US) and another year of profits in ConTe. Turnover and customer numbers are continuing to grow materially by some 23% and 20%

respectively and we now have £0.5 billion of combined turnover and over 1 million customers outside the UK. We believe we are on the cusp of delivering long term profit for the Group.

As a result of Brexit, we are exploring establishing an insurance company and an insurance intermediary business in Spain to support our European operations.

In our Price Comparison (PC) businesses, Confused in the UK continues to face a competitive and challenging market, whilst it implements its new Driver Wins strategy; this is, offset by encouraging growth in Compare in the US and record profits at Rastreator and LeLynx, with all PC businesses delivering an improved customer experience. Our joint venture Preminen PC business continues to explore new opportunities and has recently established operations in Mexico and is soon to be in Turkey.

What makes Admiral different?
Our successful model which has been maintained since launch is definitely worth a further mention. It can be distilled into the following areas:

- Highly talented team - David Stevens leads a strong, capable and experienced management team which engages the whole business
- Focus - targeted diversification building on our core skills
- Pricing - data analysis lies at the heart of what we do
- Prudent reserving - continuing our conservative approach to claims reserving
- Claims management - consistent positive feedback from customers on the service they receive
- Controlled test and learn - organic growth with measured expansion steps
- Low-cost approach - constantly challenging ourselves on how we can do things more cost effectively
- Shareholder returns - we believe in returning excess capital to shareholders

Overall we believe that people who like what they do, do it better.

Dividend
The Directors have proposed a final dividend of 58.0 pence per share (2016: 51.5p) for the year to 31 December 2017 representing a distribution of 97% of our second half earnings. This included a normal dividend (65% of post-tax profits) of 39.5 pence per share and a further special dividend of 18.5 pence per share comprising earnings not required to be held in the Group for solvency or buffers.

This will bring the total dividend for the year to 114 pence per share, an overall increase of 11% (excluding the additional return of surplus capital in 2016) and the 13th consecutive year that Admiral has paid an increased dividend. This represents a payout ratio of 97%.

The business has delivered a Total Shareholder Return (TSR) of 382% over the last 9 years.

Corporate Governance and Board Changes

The Board recognises the need for a strong corporate governance framework and supporting processes across the Group and believes that good governance, with tone set from the top, is a key factor in delivering sustainable business performance and creating value for all the Group's stakeholders.

The Board and I feel that the Board has a good balance of experience, skills and knowledge to support and challenge the management team and it is supported by effective governance and control systems. During the year the Board undertook a review of its effectiveness.

Admiral's incentive schemes remain distinctive, as every employee is a shareholder. They are designed to ensure that decisions are made by management to support long term growth, that the right behaviours are rewarded and that our people's interests are aligned with those of shareholders. Our core belief is that over the long-term, share appreciation depends on delivering great outcomes for our customers.

Penny James stepped down from the Board effective from 8 September 2017 following a change in her Executive role, and I would like to thank her for her valuable contribution. Owen Clarke was announced as taking the Remuneration Committee chair in April, subject to regulatory approval. We are in the process of seeking additional Board members, and in February 2018 appointed Andy Crossley to the Board as a Non-Executive Director and member of the Audit Committee.

Our role in society

Admiral takes its role in society very seriously and has an active Corporate Responsibility programme. We are proud to be Wales' only FTSE 100 headquartered company. Our staff play an active part in the communities in which we operate.

Thank you

On behalf of the Board I would like to thank everyone at Admiral for their continued hard work and contribution to the Group's results in 2017. This coming year is an exciting one as we hope to continue the Group's growth trajectory, building on our fledgling loans business and other businesses in UK motor, UK non-motor and overseas insurance and price comparison businesses.

We have an amazing, distinctive culture at Admiral that values agility and entrepreneurial drive, rigour and depth of thought and a collaborative team approach that puts customers first. We invest in our people and provide exciting opportunities for them to develop their careers. We are proud to continue to be one of the leading places to work, not only in the UK but in all the countries in which we operate, and were delighted to be recognised for the first time in the 'Great Place to Work 25 World's Best Workplaces 2017', being placed 23rd. What a fantastic achievement!

Annette Court
Chairman
27 February 2018

Chief Executive's Statement

Unusually for a CEO statement, I am not going to talk about what a great job the managers have done for the shareholders, nor about the company's performance over the last twelve months, or indeed, prospects for the next twelve.

Instead, at a time when the public support for the free market economy is fraying and many more people see the world of business as a zero sum game, where profit can only be earned at the expense of, rather than in the service of, customers, I'd like to talk about the value that Admiral has delivered for UK motorists over the last 20 years, while making, and not despite making, good profits throughout.

The first reason Admiral has been, and remains, good news for customers is that we operate at a lower cost than almost all our competitors. When shopping for car insurance, most motorists are looking for the best possible price, along with reassurance that they'll be looked after well, when needed. Admiral's lower costs mean lower premiums for our customers.

Over most of the last 20 years our costs have been lower than our competitors – by at least ten percentage points of premium. That's the equivalent of £50 less expense for a typical policy, and over £200 less for a higher premium policy. And that's one of the main reasons Admiral's brands come top on the UK's price comparison sites more often than any of our competitors.

In the nineties, the industry was dominated by large, often grossly inefficient, multi-product, composite insurers with too many layers and top heavy structures. Most of those are long gone, under the pressure from upstarts like Admiral and other, lower-cost, Admiral-like, operators who have followed in our footsteps. So much the better for the customer and an example of the creative destruction which explains the success of competitive free markets.

Cheap, but maybe "nasty" the cynics might reply.

Far from it.

With "an intention to renew after a claim" score of consistently well over 90% (94.5% in 2017 to be precise) we deliver for our customers at the moment of truth. And you cannot build four million+ customers in the fiercely competitive UK insurance market without delivering a good customer experience.

Not every time.

We make mistakes.

But we recognise the long-term value of the company depends on us making sure our customers, by and large, are not only glad to join us but also happy to stay with us.

If I'm proud of our outperformance on expense compared to the bulk of the car insurance market, I'm doubly proud of our expense ratio advantage in our relatively new and rapidly growing home insurance operation – doubly proud because our cost advantage over the market is not ten percentage points, but nearer twenty points. Again, this allows us to be the top most often on price comparison sites, while also making a profit. Admittedly, as yet, a small one, but watch this space.

How do we achieve lower costs while delivering a great product (5 star Defaqto ratings available across all Admirals' motor products) and (normally) a positive customer experience, and why don't most of our competitors manage all three?

Well, it's not just about the constant pursuit of efficiencies by a loyal and motivated team of employee shareholders (because all of us are both). It's also about another great driver of growth in long-term prosperity in free market economies – innovation. Throughout our life major innovations such as Confused, the first insurance price comparison site; Multicar and now Multicover; Telematics (200k+, and rising); 10-month Bonus Accelerator (one from the nineties for real insurance anoraks) have all made our policies more attractive and more accessible to UK motorists and householders, and helped keep our acquisition costs low.

I strongly believe that a market made up of a large number of companies competing actively for customers' attention and loyalty, combined with appropriate regulatory oversight, is a recipe for the best possible outcome for motorists and householders, and I believe that Admiral's success over the last 25 years demonstrates why.

David Stevens
Chief Executive Officer
27 February 2018

P.S. I don't want to count chickens, but in a year during which our Italian insurer broke through 500,000 vehicles on cover, delivered a fourth year of profit in a row and reduced its expense ratio by an amazing six percentage points, I'm looking forward, in a few year's time, to saving myself an hour or two by recycling the above CEO Statement, but just substituting "ConTe" for "Admiral".

My priorities

Last year I outlined my priorities, which I indicated would be my priorities for a number of years to come. Here's how we are doing...

Priority	Progress in 2017
Ensure Admiral remains one of, if not the, best car insurers in the UK	• Market leading combined ratio • A leading UK car insurer with almost 4 million cars • Defaqto 5* products for UK customers • Leading telematics provider and new products include short term and car sharing insurance
Demonstrate Admiral can be a great car insurer beyond the UK	• Record ConTe profit and 0.5 million customers • Improvements in key operating ratios • ConTe voted 2nd in Best Places to Work in Italy
Develop sources of growth and profits beyond car insurance	• Household insurance grown to over 650,000 customers • Household profit of £4.1 million • Launched Van and Travel Insurance in the UK • Launched Loans in the UK
Ensure Admiral stays a great place to work	• Voted 23rd In Best Places to Work in World • Voted 6th In Best Places to Work in Europe • UK voted 2nd in Sunday Times Best Companies to Work For • Over 9,600 staff received free shares worth £3,600

But progress continues in 2018…

Chief Financial Officer's Review

Results

No last minute change to the Ogden discount rate made for a somewhat smoother year-end and it was pleasing to deliver a record profit with lots of positives from around the Group. Performance of our various businesses is covered in detail in the Strategic Report and whilst it's hard to choose highlights from many potentials, I'll try anyway:

- A nice, continued improvement in the international insurance result (£22 million loss in 2015, £19 million in '16, £14 million in '17)
- A near break-even EU insurance result (plus improvements in some key metrics whilst growing premiums by almost a quarter in not exactly the easiest of market conditions);
- Breaking through one million customers outside the UK in September 2017;
- Comfortably beating our targets for Admiral Loans in its first proper year of operation;
- Achieving 'marketing break-even' in Compare.com ahead of target;
- Very positive progress in converting our Gladiator van insurance broker portfolio to being underwritten within the Group;
- And of course, a record UK insurance profit of £466 million.

And for balance, a few of the less positive aspects:

- Investment behind the Drivers Win campaign alongside new product development cost and a generally fierce market led to a fall in profits at Confused.com (£16m to £10m);
- Despite continued confidence in the long term prospects of the business, there was a £25 million write down in the carrying value of Elephant Auto in the parent company balance sheet;
- 2017 saw higher Group overheads and other items (some of which are non-recurring) at £52.9 million v £36.8 million.

Further detail on these latter points can be found later in this report.

Ogden Discount Rate

Regular readers of our results will be very familiar with the Ogden topic and I won't repeat the full detail here. A year ago we estimated that the change in rate which came into effect in March 2017 would cost the Group around £150 million after tax and reinsurance. Most of the impact has now been reflected in the income statement and we still consider the £150 million a valid estimate.

These accounts and our current capital position assume the -0.75% rate remains effective indefinitely, as we think that's the prudent thing to do in the absence of other information.

Sensitivities in terms of balance sheet and capital to different rates are set out on later in this report.

In the 2016 Annual Report, we disclosed a profit number (£390m) that the Group would have reported had the Ogden rate remained unchanged. This year's Group profit of £405m is around 4% higher than that 'pre-Ogden' number, though 2017's profit is further adversely impacted by the Ogden change to the order of £40m. As the comparatives become less helpful, we have not repeated the pre-Ogden number from 2016 in this report.

The financial statements continue to include a significant and prudent margin above the projected ultimate claims outcomes, although this margin has reduced since the end of 2016, partly due to increased confidence over the impact of the change in Ogden rate to -0.75%.

Capital, Dividends, Internal Model
Speaking of capital, not too much has changed since the end of 2016. Our solvency ratio remains very strong at over 200%, though has reduced modestly since the end of 2016, mainly as the result of growth. A ratio of over 200% is still higher than we'd expect to report in the medium/long term. However (copy and paste alert), we continue to believe that's the prudent approach as we move towards applying to use our own model to calculate the capital requirement (no change to report on the expected submission date which is late in 2018). We'll continue to provide updates as we make progress.

Brexit
We have made good progress on preparing the Group to be able to continue trading in Europe should, as seems highly likely, we lose the ability to passport our UK regulatory licenses into those markets.

In terms of insurance, we have made applications to the regulator in Spain for permission to underwrite all the EU insurance business (Admiral Seguros, ConTe and L'olivier) from there and expect to have everything up and running in advance of any hard deadline that might eventually become clear.

Spain made sense for us for a number of reasons, not least the fact that we already have people and infrastructure in Madrid and Seville and of course an existing relationship with the regulator.

Things are more straightforward on the price comparison side where we are setting up new, locally regulated entities in Spain and France through which Rastreator and LeLynx will trade. Again, we expect these moves to be complete in good time.

The cost of the restructuring work will not be material to the Group and we don't expect there to be a material impact on the Group's regulatory capital position as a result of the restructure.

I'm looking forward to continued growth and progress across the Group in 2018.

Geraint Jones
Chief Financial Officer
27 February 2018

2017 Group Overview

	2017	2016	2015
Customer numbers	**5.73 million**	**5.15 million**	**4.43 million**
Turnover	**£2.96 billion**	**£2.58 billion**	**£2.12 billion**
Net revenue	**£1.1 billion**	**£1.0 billion**	**£0.9 billion**
Analysis of profit (£m):			
UK insurance	465.5	337.8	443.7
International Insurance	(14.3)	(19.4)	(22.2)
Price Comparison	7.1	2.7	(7.2)
Other	(52.9)	(36.8)	(37.5)
Group share of profit before tax	**405.4**	**284.3**	**376.8**
Group statutory profit before tax (£m)	**403.5**	**278.4**	**368.7**
Key metrics			
Group loss ratio	66.2%	72.0%	65.1%
Group expense ratio	21.7%	22.4%	20.5%
Group combined ratio	87.9%	94.4%	85.6%
Earnings per share	117.2 pence	78.7 pence	107.3 pence
Dividends	114.0 pence	114.4 pence	114.4 pence
Return on capital employed	55%	37%	49%
Solvency ratio	205%	212%	206%

The Group has maintained its track record of strong growth in 2017 with turnover up 15% to £2.96 billion (2016: £2.58 billion) and net revenue 11% higher at £1.1 billion (2016: £1.0 billion). Customer numbers increased 11% to 5.73 million (2016: 5.15 million). The Group's statutory profit before tax was £403.5 million (2016: £278.4 million) whilst its share of pre-tax profit was £405.4 million (2016: £284.3 million).

The Group's 2017 results reflect higher UK Insurance profits, an improved Price Comparison result and a lower loss in the International Insurance segment, partially offset by higher other Group charges and business development costs. The Group's 2016 profit before tax was adversely impacted by the change in the UK discount rate (commonly referred to as the 'Ogden' discount rate) used to value personal injury claims. The distorting impact of this on the 2016 profit before tax means that 2016 does not provide a meaningful comparison for the 2017 Group and UK Insurance profit before tax figures (see later in the report for further detail on Ogden).

During 2017, the Group's UK Insurance business, consisting of UK Motor and UK Household, delivered strong growth in turnover of 14% to £2.35 billion (2016: £2.06 billion). Net revenue increased by 9% to £841.0 million (2016: £770.9 million). Customer numbers reached 4.6 million (2016: 4.1 million).

Outside the UK, Admiral's International Insurance businesses grew combined turnover by 23% to £449.8 million (2016: £365.9 million) whilst net revenue increased by 35% to £144.8 million (2016:

£107.3 million). Customer numbers were up 20% to 1.03 million (2016: 0.86 million). Encouraging progress was made in combined ratio terms with a 4 point improvement, and in aggregate the segment recorded reduced losses of £14.3 million (down from £19.4 million, despite the impact of a significant hurricane on the US result). The Group's Italian insurer ConTe recorded a profit for the fourth consecutive year.

Admiral's Price Comparison businesses made an increased combined profit (excluding minority interests' shares) of £7.1 million (2016: £2.7 million). In the UK, the high level of competition in the price comparison market and investment in the new marketing campaign and product development by Confused.com resulted in reduced profits of £10.1 million in 2017 (2016: £16.1 million). This lower Confused.com profit was offset by a significantly reduced combined loss of £3.0 million (2016: loss £13.4 million) from the international price comparison businesses, where a growing profit in the European operations of £4.1 million (2016: £2.8 million) was offset by a significantly smaller loss in compare.com of £7.1 million (2016: loss £16.2 million).

Earnings per share

Earnings per share were 117.2 pence (2016: 78.7 pence), the near 50% increase being higher than the increase in pre-tax profit as a result of a lower effective rate of taxation in 2017.

Dividends

The Group's dividend policy is to pay 65% of post-tax profits as a normal dividend and to pay a further special dividend comprising earnings not required to be held in the Group for solvency or buffers.

The continued strength in the Group's solvency ratio has allowed the Board to propose a final dividend of 58.0 pence per share (£163 million) as follows:

- 39.5 pence per share representing a normal element, based on the dividend policy of distributing 65% of post-tax profits; and
- A special element of 18.5 pence per share.

This final dividend reflects a 13% increase of the final 2016 dividend of 51.5 pence per share. The total dividend for the 2017 financial year is 114.0 pence per share, which is broadly in line with the 114.4 pence paid in 2016 and in 2015, both years including an additional return of surplus capital of 11.9 pence per share. Excluding this additional return, the total dividend for 2017 is 11% higher than 2016 and 2015.

The payment date is 1 June 2018, ex-dividend date 10 May 2018 and record date 11 May 2018.

Return on equity

Admiral's capital efficient and highly profitable business model achieved a return on equity of 55% (2016: 37%).

A key part of Admiral's business model is the extensive use of co- and reinsurance across the Group which provides both loss protection and capital relief and, when combined with high levels of profitability, leads to a superior return on equity.

As noted above, 2016’s result was materially distorted by the impact of the Ogden rate change.

Capital structure and financial position

The Group’s co-insurance and quota share reinsurance arrangements for the UK Car insurance business are in place until at least the end of 2019. The Group‘s net retained share of that business is 22%. Munich Re will underwrite 40% of the business (through co-insurance and quota share reinsurance arrangements) until at least the end of 2020.

Similar long term arrangements are in place in the Group’s International Insurance operations and UK Household Insurance business.

The Group continues to manage its capital to ensure that all entities within the Group are able to continue as going concerns and that regulated entities comfortably meet regulatory capital requirements. Surplus capital within subsidiaries is paid up to the Group holding company in the form of dividends.

The Group’s regulatory capital is based on the Solvency II Standard Formula, with a capital add-on to reflect recognised limitations in the Standard Formula with respect to Admiral’s business (predominantly in respect of profit commission arrangements in co- and reinsurance agreements and risks arising from claims including Periodic Payment Order (PPO) claims).

The capital add-on to the Standard Formula for 2018 is subject to the usual regulatory approval process. The Group plans to submit an application for approval to use an internal model to calculate capital requirements during 2018.

The majority of the Group's capital requirement is derived from its European insurance operations, Admiral Insurance (Gibraltar) Limited (AIGL) and Admiral Insurance Company Limited (AICL). The estimated (and unaudited) Solvency II position for the Group at the date of this report was as follows:

Group capital position (unaudited)

Group	**£bn**
Eligible Own Funds (pre 2017 final dividend)	1.25
2017 final dividend	0.16
Eligible Own Funds (post 2017 final dividend)	1.09
Solvency II capital requirement*1	0.53
Surplus over regulatory capital requirement	**0.56**
Solvency ratio (post dividend)*2	**205%**

*1 Solvency capital requirement includes updated capital add-on which is subject to regulatory approval.
*2 Solvency ratio calculated on a volatility adjusted basis.

The Group’s capital includes £200 million ten year dated subordinated bonds. The rate of interest is fixed at 5.5% and the bonds mature in July 2024. The bonds qualify as tier two capital under the Solvency II regulatory regime.

Estimated sensitivities to the current Group solvency ratio are presented in the table below. These sensitivities cover the two most material risk types, insurance risk and market risk, and within these risks cover the most significant elements of the risk profile. Aside from the catastrophe events, estimated sensitivities have not been calibrated to individual return periods.

Solvency ratio sensitivities (unaudited)

UK Motor – incurred loss ratio +5%	-26%
UK Motor – 1 in 200 catastrophe event	-3%
UK Household – 1 in 200 catastrophe event	-2%
Interest rate – yield curve down 50 bps	-11%
Credit spreads widen 100 bps	-4%
Currency – 25% movement in euro and US dollar	-3%
ASHE – long term inflation assumption up 0.5%	-4%

Taxation

The tax charge reported in the Consolidated Income Statement is £71.9 million (2016: £64.3 million), which equates to 17.8% (2016: 23.1%) of profit before tax. The lower effective rate of taxation compared to 2016 results from lower losses in the Group's US businesses leading to a lower level of unrecognised deferred tax asset and the reduction in the UK corporation rate to 19.0% (from 20.0% from 1 April 2017).

Investments and cash

Investment strategy

Admiral's investment strategy was unchanged in 2017 and the Group continued to invest in the same asset classes as previous years.

The main focus of the Group's strategy is preservation of amounts invested, with additional priorities including low volatility of returns and high levels of liquidity. The Group's Investment Committee performs regular reviews of the strategy to ensure it remains appropriate.

Cash and investments analysis

£m	**2017**	**2016**	**2015**
Fixed income and debt securities	1,493.5	1,469.2	1,428.2
Money market funds and other fair value instruments	1,074.3	781.0	627.7
Cash deposits	130.0	170.0	267.6
Cash	326.8	326.6	265.3
Total	**3,024.6**	**2,746.8**	**2,588.8**

Money market funds, fixed income and debt securities comprise the majority of the total; 85% at 31 December 2017 (2016: 82%).

Investment and interest income in 2017 was £41.7 million, a reduction of £11.4 million on 2016 (£53.1 million). There are a number of partially offsetting variances: 2016 benefitted from £9.2 million of income relating to the release of an accrual relating to quota share reinsurance arrangements, which wasn't repeated in 2017. In addition, there is a negative variance of £8.8 million relating to unrealised gains and losses on forward exchange contracts, offset by a one-off gain in 2017 relating to the realised gains on sale of government gilt assets of £5.4 million.

The underlying rate of return for the year (excluding accruals related to reinsurance contract funds withheld) on the Group's cash and investments was 1.3% (2016: 1.4%).

The Group continues to generate significant amounts of cash and its capital-efficient business model enables the distribution of the majority of post-tax profits as dividends.

Cash flow

£m	**2017**	**2016**	**2015**
Operating cash flow, before transfers to investments	617.2	525.1	487.2
Transfers to financial investments	(229.4)	(18.1)	(112.5)
Operating cash flow	387.8	507.0	374.7
Tax payments	(55.9)	(74.6)	(63.8)
Investing cash flows (capital expenditure)	(22.7)	(31.6)	(47.8)
Financing cash flows	(309.6)	(364.7)	(256.3)
Foreign currency translation impact	0.6	25.2	2.6
Net cash movement	**0.2**	**61.3**	**9.4**
Movement in unrealised gains on investments	11.2	35.2	(12.6)
Movement in accrued interest	37.0	43.4	29.5
Net increase in cash and financial investments	**277.8**	**158.0**	**138.8**

The main items contributing to the operating cash inflow are as follows:

£m	**2017**	**2016**	**2015**
Profit after tax	**331.6**	**214.1**	**291.8**
Change in net insurance liabilities	53.2	206.8	148.7
Net change in trade receivables and liabilities	131.3	25.3	(55.7)
Non-cash income statement items	29.2	14.6	25.5
Taxation expense	71.9	64.3	76.9
Operating cash flow, before transfers to investments	**617.2**	**525.1**	**487.2**

Total cash plus investments increased by £277.8 million or 10% (2016: £158.0 million, 6%).

The Group's results are presented in the following sections as UK Insurance, International Car Insurance and Price Comparison.

UK Insurance

UK Insurance Review – Cristina Nestares, CEO UK Insurance

The last twelve months has been a year of big birthdays and a couple of births for Admiral's UK insurance segment. It's now 25 years since we sold our first car insurance policy (2 January 1993), and 5 years since we sold our first Household policy (18 December 2012).

Over that time, our customer focussed approach and strategy of providing excellent service at an affordable price has attracted more than 4.5m customers. I'm very excited that we've launched another two insurance businesses during 2017, with Admiral Van launching in May and Admiral Travel in late November. We hope that by expanding our offering we can provide a fuller product set to satisfy our existing customers, as well as attracting new customers to the Admiral brand.

I opened last year's review with a brief reference to the Ogden discount rate, which had changed a few days before we announced our 2016 results. Whilst it's not quite such a hot topic this time around, it seems like a fairly logical place to start this time around too, as it has continued to influence the UK Car Insurance business throughout the year.

One of the cornerstones of Admiral's success is of course our strong underwriting record, which has enabled us to consistently grow profits over the last 25 years. To protect that underwriting result in a time of significant uncertainty, we put up prices considerably at the start of the year, which impacted our volumes in the first couple of months of 2017 (having grown by more than 10% over the course of 2016). Our competitiveness gradually improved over the first half (despite significant further rate increases) as other insurers gradually adjusted their prices after the new Ogden rate was announced.

Confidence then returned to the market in the second half of the year and we and many others started to reduce prices, partly following the announcement that the Ogden rate would be reviewed (which may lead to a partial reversal of the rate increases required following the February announcement), but significantly also due to the market-wide favourable experience on bodily injury frequency. The frequency of BI claims registered on the MOJ portal is 12.5% lower than in 2016, which is consistent with Admiral's experience.

Whilst some of that benefit has been offset by continued inflation on accidental damage claims, due to the increasing sophistication of cars and movements in exchange rates, the net impact of the price rises and claims frequency reduction means that 2017's underwriting year looks like Admiral's best year for a number of years, encouragingly achieved against a backdrop of a 5% growth in the customer base despite the slow start to the year. There's also scope for further improvement should the Government's review of the discount rate result in lower settlements than those currently reserved on large BI claims.

Whilst we are proud of our track record of pricing and claims handling, what actually allows us to grow and generate profits each year is that our customers trust us to not only offer competitive prices, but also to provide excellent service. That is regularly supported by a number of customer KPIs we track continuously, whether in the form of direct feedback, retention rates or complaint figures. As a result it was disappointing that we made an error in the way we disclosed prior year premiums on some customer notices during the second quarter of the year. However, having recognised the error, I was very encouraged with the dedication of our people, from a number of different departments, to pull together and correct the issue, and to quickly provide remediation to our affected customers. Whilst not in the ideal circumstances, it was another example of the great team spirit and culture that still exists 25 years on from our launch.

Aside from car insurance, our Household business performed very well once again, and continues to show significant promise. We benefitted from another benign year in terms of weather to deliver a strong underwriting result, whilst at the same time growing the book by more than 40% to insure more than 650,000 homes by the end of the year. That was achieved through a combination of strong retention, which is delivering a growing renewal book, and also very strong new business performance both through the growing price comparison channel and, very pleasingly, through the direct channel which further confirms the strength of the Admiral brand. Cumulative profits of £7.8m after only 5 years without the benefit of a large renewal book is a very good sign for the future.

Whilst the van and travel markets are considerably smaller than car and home, we're confident that they will follow in their footsteps and expand Admiral's footprint, customer base and profits in the coming years.

Cristina Nestares
CEO, UK Insurance
27 February 2018

UK Insurance review

UK Insurance financial performance

£m	2017	2016	2015
Turnover*1	**2,354.0**	**2,063.1**	**1,760.2**
Motor	461.4	335.1	442.5
Household	4.1	2.7	1.2
Group's share of UK insurance profit	**465.5**	**337.8**	**443.7**
Vehicles insured at year end	3.96m	3.65m	3.30m
Households insured at year end	0.66m	0.47m	0.31m
Total UK Insurance customers	**4.62m**	**4.12m**	**3.61m**

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation

UK insurance includes the results of the UK motor and UK household insurance segments.

Turnover grew by 14% to £2.35 billion (2016: £2.06 billion) whilst customer numbers increased by 12% to 4.62 million from 4.12 million, due to growth across both motor and household. UK insurance profit increased to £465.5 million (2016: £337.8 million).

The key highlights for the UK insurance business in 2017 were:

- Generally favourable conditions in motor and household markets with motor rates increasing sharply in Q2, impacted by the change in Ogden, followed by some price reductions later in the year;
- Improved competitiveness at new business following the market response to Ogden and generally positive customer retention;
- Notable reductions in bodily injury claims frequency;
- Significant releases from booked motor insurance reserves; and
- Another profitable year for UK household insurance, though the total remains small in the context of the overall result.

UK Motor Insurance financial review

£m	**2017**	**2016**	**2015**
Turnover[*1]	**2,246.9**	**1,987.0**	**1,708.2**
Total premiums written[*1]	2,001.5	1,789.3	1,539.7
Net insurance premium revenue	468.4	437.4	386.5
UK Motor Insurance profit before tax	**461.4**	**335.1**	**442.5**
Reported car loss ratio[*1,*2]	63.8%	73.3%	64.1%
Reported car expense ratio[*1,*3]	16.2%	17.5%	16.9%
Reported car combined ratio	80.0%	90.8%	81.0%
Claims reserve releases – original net share[*1,*5]	£92.1m	£58.3m	£84.6m
Claims reserve releases – commuted reinsurance[*1,*6]	£73.8m	£17.1m	£88.8m
Total claims reserve releases	£165.9m	£75.4m	£173.4m
Other Revenue per vehicle (Car)	£64	£62	£63
Cars insured at year end	3.84m	3.65m	3.30m
Vans insured at year end	0.12m	-	-

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation

*2 Motor loss ratio adjusted to exclude impact of reserve releases on commuted reinsurance contracts. Reconciliation in note 12b.

*3 Motor expense ratio is calculated by including claims handling expenses that are reported within claims costs in the income statement. Reconciliation in note 12c.

*4 Reported total combined ratio includes additional products underwritten by Admiral.

*5 Original net share shows reserve releases on the proportion of the portfolio that Admiral wrote on a net basis at the start of the underwriting year in question.

*6 Commuted reinsurance shows releases on the proportion of the account that was originally ceded under quota share reinsurance contracts but has since been commuted and hence reported through underwriting and not profit commission.

UK motor insurance includes UK car and UK van results. During May 2017, the Group ceased operating its commercial vehicle insurance broker and started underwriting van insurance directly through two brands, Gladiator and Admiral Van. Admiral offers van insurance and associated products, typically to small businesses, via telephone and the internet, including price comparison websites.

The UK motor insurance business continued to attract and retain customers in the competitive UK market and this, together with higher average premiums, contributed to an increase in turnover of 13% to £2.25 billion (2016: £1.99 billion) and vehicles insured increased by 8% to 3.96 million from 3.65 million. UK motor insurance profit before tax was £461.4 million (2016: £335.8 million).

The strong performance of UK motor in 2017 reflects:

- Higher premium revenue and a lower current year loss ratio and therefore reduced net claims costs;
- Higher reserve releases on Admiral's original net share (approximately £34 million positive impact) reflecting improvement in prior year claims reserves;
- Higher reserve releases on the portion of reserves originally reinsured but since commuted (approximately £57 million positive impact), leading to higher aggregate net reserve releases across original net and commuted shares.
- Higher profit commission income (£12 million positive impact) resulting from higher reserve releases;
- Lower investment return (£7 million adverse impact) mainly related to non-recurring items in 2016 as explained in the Investments and Cash section above
- Higher ancillary income (£16m positive impact) mainly as a result of higher instalment income (impact £22 million) as a result of a change in the co-insurance arrangement with Munich Re.

The UK market saw rate increases during 2017, particularly from the second quarter in response to the change in Ogden discount rate (below), before the market-wide favourable experience on bodily injury frequency led to price decreases. Admiral increased its rates in December 2016 in advance of the Ogden change and this impacted competitiveness in the first few months of 2017. This improved in the second quarter as the market increased prices in response to the Ogden change and Admiral continued to increase prices during the first six months of 2017 before responding to market conditions and reducing prices in the latter part of the year.

Underwriting result and profit commission

The UK car insurance combined ratio is shown below:

UK car insurance motor combined ratio	**2017**	**2016**	**2015**
Loss ratio excluding reserve releases from original net share and commuted reinsurance	85.3%	87.7%	87.7%
Reserve releases – original net share	21.5%	14.4%	23.6%
Loss ratio net of releases – original net share*1	**63.8%**	**73.3%**	**64.1%**
Expense ratio	16.2%	17.5%	16.9%
Combined ratio – original net share*1	**80.0%**	**90.8%**	**81.0%**

*1 Ratios calculated on original net share use the proportion of the portfolio that Admiral wrote on a net basis at the start of the underwriting year in question.

The reported UK motor combined ratio decreased to 80.0% from 90.8% (both figures exclude the impact of reserve releases from commuted reinsurance contracts). The main reason for the decrease is a significantly higher reserve release in the current period, which is mainly a result of the impact on the 2016 figures of the change in the Ogden rate.

During 2017, projected ultimate claims costs on the most recent accident years have continued to develop positively. The projected ultimate loss ratios are based on the new Ogden discount rate of minus 0.75% and are cautiously calculated for the most recent accident years but which, nevertheless, have shown improvements in development. The projections assume no improvement or further deterioration in discount rate that might result from the ongoing consultation.

Note 5d to the financial statements analyses reserve releases in the period.

The decrease in the current period loss ratio (85.3% v 87.7%) reflects sustained price increases more than offsetting general claims inflation. Claims trends include favourable small bodily injury frequency being only partially offset by higher accidental damage costs, as the costs of replacing vehicle parts continues to increase.

The projected ultimate car insurance loss ratio for Admiral for the 2017 accident year is 76%, which is significantly lower than the projection of the 2016 year at the same point in its development (which was 82%). This reflects the impact of the pricing increases and reduced claims inflation highlighted above.

The reported car expense ratio improved to 16.2% from 17.5% mainly reflecting the change in net retained share in the current year. The written basis expense ratio also improved to 15.8% from 16.5% for similar reasons.

Change in UK discount rate ('Ogden')

On 27 February 2017, the UK Government announced the outcome of the review of the discount rate (referred to as the Ogden discount rate) used for calculating the value of lump sum personal injury compensation. The new rate is minus 0.75% and applies to all unsettled and new claims from 20 March 2017.

The estimated cost to Admiral, net of tax and reinsurance, of the change is approximately £150 million. Most of the impact has now been reflected in the income statements of 2016 and 2017.

As noted above, the UK motor insurance actuarial best estimates reflect the new rate of minus 0.75%. Although its relative size has reduced since the end of 2016, the financial statements continue to include a significant and prudent margin above the projected ultimate claims outcomes.

The Government's review of the discount rate and the process by which the rate is set continue and the Group looks forward to reviewing its conclusions when they are reported.

Ogden discount rate sensitivities

The table below shows the sensitivity of profit before tax and solvency ratio to the Ogden discount rate assumption. The profit impacts presented are the total impact of the change on the Group's pre-tax profit on an ultimate basis. It should be noted that not all of the impact would be recognised immediately.

	Impact on Profit before Tax (£m)*1	Impact on Solvency Ratio (%)
Increase in Ogden discount rate of 75 basis points (to 0%)	85.6	+6%
Decrease in Ogden discount rate of 75 basis points (to minus 1.5%)	(142.7)	-16%

*1 The impacts on profit before tax are stated net of co-insurance and reinsurance and include the impact on net insurance claims along with the associated profit commission movements that result from the change in the Ogden rate.

UK Car Insurance – co-insurance and reinsurance

Admiral makes significant use of proportional risk sharing agreements, where insurers outside the Group underwrite a majority of the risk generated, either through co-insurance or quota share reinsurance contracts. These arrangements include profit commission terms (see below) which allow Admiral to retain a significant portion of the profit generated.

The Munich Re Group will underwrite 40% of the UK motor business until at least 2020. 30% of this total is on a co-insurance basis, with the remaining 10% under a quota share reinsurance agreement from 2017 onwards.

The Group also has other quota share reinsurance arrangements confirmed to the end of 2019 covering 38% of the business written. The Group reduced its net underwriting share from 25% previously to 22% with effect from 2017.

The nature of the co-insurance proportion underwritten by Munich Re (via Great Lakes) is such that 30% of all motor premium and claims for the 2017 year accrue directly to Great Lakes and are not reflected in the Group's financial statements. Similarly, Great Lakes reimburses the Group for its proportional share of expenses incurred in acquiring and administering this business.

The quota share reinsurance arrangements result in all motor premiums and claims that are ceded to reinsurers being included in the Group's financial statements, but these figures are adjusted to exclude the reinsurer share, resulting in a net result for the Group.

The Group also purchases excess of loss reinsurance to provide protection against large claims and reviews this cover annually. For 2017 the Group increased its excess of loss cover as a result of the anticipated change in Ogden discount rate and the potential impact on large claims. For 2018, the Group has reduced this level of cover to be back in line with more recent levels.

Profit commission

Admiral is potentially able to earn material amounts of profit commission revenue from co- and reinsurance partners, depending on the profitability of the insurance business underwritten by the partner. Revenue is recognised in the income statement in line with the booked loss ratios on Admiral's retained underwriting.

In 2017 Admiral recognised UK car insurance profit commission revenue of £64.7 million up from £52.7 million in 2016. The increase from 2016 arose mainly due to the improvements in the booked loss ratios on prior years, although both 2017 and 2016 profit commission was impacted by the change in Ogden (as above).

Note 5c to the financial statements analyses profit commission income by underwriting year.

Commutations of quota share reinsurance

Admiral tends to commute its UK Car Insurance quota share reinsurance contracts for an underwriting year 24 months from inception, assuming there is sufficient confidence in the profitability of the business covered by the reinsurance contract.

After the commutation is executed, movements in booked loss ratios result in reserve releases (or strengthening if the booked loss ratio were to increase) rather than reduced or increased reinsurance claims recoveries or profit commission.

In 2017 Admiral recognised reserve releases from commuted reinsurance contracts of £73.8 million (2016: £17.1 million). The increase from 2016 arose mainly due to the improvements in the booked loss ratios on prior years, although the comparative figure was adversely affected by the impact (£31 million) of the 2014 underwriting year commutation which was completed in 2016.

During 2017, a number of reinsurance contracts relating to the 2015 underwriting year were commuted. At 31 December 2017, reinsurance contracts remain in place for the 2015, 2016 and 2017 years.

Refer to note 5d(vi) of the financial statements for analysis of reserve releases on commuted quota share reinsurance contracts.

UK Car Insurance Other Revenue

£m	**2017**	**2016**	**2015**
Net other revenue	**202.9**	**188.7**	**174.6**
Other revenue per vehicle[*1]	**£64**	**£62**	**£63**

*1 Other revenue (before internal costs) divided by average active vehicles, rolling 12 month basis.

Admiral generates Other Revenue from a portfolio of insurance products that complement the core car insurance product, and also fees generated over the life of the policy.

Net other revenue has increased by 8% mainly due to the increase in instalment income which represents amounts charged to customers paying for cover in instalments. During 2017 Admiral earned £55.5 million from instalment income, up 66% on the prior year (2016: £33.5 million). The main reason for this increase is a change to the co-insurance arrangements resulting in all instalment income from 2017 underwriting year onwards being retained by Admiral. Other factors affecting the increase are increases in average premium and customer numbers.

Other revenue was equivalent to £64 per vehicle (gross of costs; 2016: £62). The majority of the increase reflects increases in instalment income (above) and optional legal cover.

UK Household Insurance financial performance

£m	2017	2016	2015
Turnover*1	**107.1**	**76.1**	**52.0**
Total premiums written*1	96.5	73.3	50.7
Net insurance premium revenue	23.1	17.0	10.9
UK Household insurance profit before tax	**4.1**	**2.7**	**1.2**
Reported household loss ratio	73.5%	76.5%	75.2%
Reported household expense ratio	30.0%	34.1%	33.0%
Reported household combined ratio	103.5%	110.6%	108.3%
Households insured at year end	659,800	468,700	310,400

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation

UK Household insurance was launched in December 2012 under the Admiral brand.

The UK Household insurance business continued to grow strongly and increased the number of properties insured by 41% to 659,800 (2016: 468,700). Turnover increased by 41% to £107.1 million (2016: £76.1 million) and profit increased to £4.1 million (2016: £2.7 million). This reflects the continued substantial growth of the business and also a cautious approach to setting and releasing claims reserves and hence profit recognition.

The reported loss ratio improved in 2017 to 73.5% from 76.5% due to relatively benign weather and strong underwriting. During 2017 the business gained scale, improved retention and increased the proportion of customers buying direct, leading to an improving expense ratio and one that significantly outperforms the market.

UK Household insurance – reinsurance

The Group's Household business is supported by long-term proportional reinsurance arrangements with Munich Re and Swiss Re covering 70% of the risk. In addition, the Group has non-proportional reinsurance to cover the risk of catastrophes stemming from weather events.

UK Insurance Regulatory environment

The UK Insurance business operates predominantly under the regulation of the UK Financial Conduct Authority (FCA) and Prudential Regulatory Authority (PRA), and through a Gibraltar-based insurance company, under the Financial Services Commission (FSC) in that territory.

The FCA and PRA regulate the Group's UK registered subsidiaries including EUI Limited (an insurance intermediary) and Admiral Insurance Company Limited (AICL; an insurer), whilst the FSC regulates Admiral Insurance (Gibraltar) Limited (AIGL; also an insurer).

The Group is required to maintain capital at a level prescribed by the lead regulator for Solvency II purposes, the PRA, and maintains a surplus above that required level at all times.

International Car Insurance

European Insurance – Milena Mondini – CEO, European Insurance
A key question for Admiral is 'can we be a successful insurer outside the UK?' My short answer is 'yes', although results and speed of growth vary country by country, depending on the maturity of the business and direct channel uptake in the local market.

To build a success story as a new direct insurer in Europe - where Price Comparison Websites (PCWs) are not yet the dominant acquisition channel - in my opinion, you need to prove two essential things: first, to grow efficiently and, second, to have better underwriting capabilities than competitors.

On both these drivers, 2017 has been a truly great year. We continued growth, 23% in written premiums, while at the same time we drastically reduced our acquisition cost per policy. We achieved that despite limited growth of PCWs and in the absence of premium increases in the market. This resulted in a decrease of 4 points in the expense ratio.

In parallel, we improved our pricing, antifraud and underwriting skills and experienced reserve releases on the recent years. We are confident that we underwrite business with a competitive loss ratio in all three countries. At the same time, we increased our reserve buffer in France and Spain to mirror the same conservative approach already adopted in Italy and the UK.

We now have 500,000 vehicles insured in ConTe, which continues to report profits. L'olivier and Admiral Seguros are growing rapidly and approaching a scale that we expect will sustain profitability in the near future.

All three businesses are growing, have solid operations and processes, recognized brands, experienced and talented management and a clearly customer-focused Admiral culture. With this, I'm confident we will continue to build our success stories in Europe and I look forward to another year of growth.

Spain – Sarah Harris – CEO, Admiral Seguros
In 2017 Admiral Seguros continued our path of sustainable growth. We increased customers by almost 20%, with strong technical results.

The Spanish market grew premium by about 3%. Price competition means that insurers are not passing to customers the full impact of claims cost inflation from the new "Baremo" (regulating compensation for bodily injury cases).

In this highly competitive context we continued to grow market share due to customer journey improvements in the price comparison channel, combined with strong growth in direct-to-site digital sales, particularly for the Qualitas Auto brand. Technical results developed well, with especially positive evolution for the 2016 underwriting year.

In 2018 we don´t expect much change in the market. We will maintain focus on scaling up the business in a sustainable way.

Italy – Costantino Moretti – CEO, ConTe
More growth and another year of profit!

Despite a challenging market where the average premium continued to fall (around 3% year-on-year) and price comparison growth was low, we have increased our customer base to 500,000 (+20% year-on-year) and have maintained a strong focus on profitability, reaching a profit for the fourth year in a row. The main drivers of this are: a better customer journey sustained by a stronger brand; a more mature portfolio; and improvement in the expense ratio.

Loss ratios are developing well and show a consistent downtrend across 2016 and prior underwriting years.

The 2017 market combined ratio should be around 100% while for the direct part of the market it should already be above 100%, and as a consequence a timid market cycle upturn is now more likely than one year ago.

In this context, ConTe continues to pursue its 'sustainable growth' strategy and to maintain a consistent level of investment in technology, brand and people.

France – Pascal Gonzalvez – CEO, L'olivier - assurance auto
L'olivier – assurance auto had another year of strong growth, with a more than 40% increase in turnover and closing the year with 130,000 customers. This was due to a growing aggregator market and some effective TV investments that improved our brand awareness. Two years ago, a new regulation was passed helping French customers to switch their motor insurance more easily. Though more an evolution than a revolution, this change is having a growing impact in market fluidity and L'olivier – assurance auto is benefiting from it.

Moderate price increases in the market were not strong enough to compensate for higher claims costs and market profitability isn't likely to improve much in 2017. The market motor combined ratio is expected to be around 105%.

L'olivier – assurance auto managed to improve its technical results thanks to our unique way of pricing in the French market. Our pricing competitive advantage should become even more significant with a larger book of business, more data and more exposure.

What's next? L'olivier needs to keep growing and build scale in order to provide sustainable profits to Admiral Group. Service quality will be a key lever to achieve this goal and our ambition is to prove to French customers that a direct insurer can provide service excellence. Our vision by 2020 is to be in the top three direct motor insurers in France, providing a high service quality and using one of the most sophisticated approaches to pricing and underwriting in the French market.

Lots of new exciting projects are in the pipeline to make our vision a reality!

USA – Alberto Schiavon – CEO, Elephant Auto

During 2017, Elephant Insurance made good progress towards becoming a growing, profitable, sustainable company centred around our customers. Our key focus was on attracting, servicing and retaining more customers with a longer policy lifetime.

Through better risk selection, higher service levels, and a better customer journey, Elephant has been able to significantly shift the mix of our sales distribution in favour of these higher retaining customers. This is an important step towards creating the foundation for future growth, as the effect of those actions should continue to pay off in future years.

However, 2017 was a year with catastrophic losses across the US, with a number of hurricanes hitting the southern coasts. In particular, Hurricane Harvey impacted our Texas customers, but Elephant was able to deliver excellent service to our customers in need. While hurricane claims did impact our loss ratio, by approximately 5 points, Elephant was still able to deliver overall loss ratio improvements on the back of better risk selection and rate increases that were in line with the market.

Our customer interactions also materially improved throughout the year. Thanks to technology investments, we were able to deliver a more complete digital journey and better service levels in our claims and operational departments.

We expect new initiatives planned for 2018, revolving around continued improvements to the customer experience and product offering, to continue to accelerate our progress in attracting higher persisting and profitable customers.

International Car Insurance financial performance

£m	**2017**	**2016**	**2015**
Turnover*1	**449.8**	**365.9**	**232.4**
Total premiums written*1	401.4	331.3	213.3
Net insurance premium revenue	123.0	91.3	62.3
International Car Insurance result	**(14.3)**	**(19.4)**	**(22.2)**
Reported Loss ratio*2	76%	76%	77%
Expense ratio*2	45%	49%	49%
Combined ratio*3	121%	125%	126%
Combined ratio, net of Other revenue*4	109%	113%	115%
Vehicles insured at period end	**1.03m**	**0.86m**	**0.67m**

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation.

*2 Loss ratios and expense ratios have been adjusted to remove the impact of reinsurer caps so the underlying performance of the business is transparent.

*3 Combined ratio is calculated on Admiral's net share of premiums and excludes Other Revenue. It excludes the impact of reinsurer caps. Including the impact of reinsurer caps the reported combined ratio would be 2017: 124%; 2016: 133%; 2015: 146%.

*4 Combined ratio, net of Other Revenue is calculated on Admiral's net share of premiums and includes Other Revenue. Including the impact of reinsurer caps the reported combined ratio, net of Other Revenue would be 2017: 112%; 2016: 122%; 2015: 136%.

Geographical analysis[*1]

2017	Spain	Italy	France	US	Total
Vehicles insured at period end (m)	0.22	0.50	0.13	0.18	1.03
Turnover (£m)	61.5	154.6	59.2	174.5	449.8

2016	Spain	Italy	France	US	Total
Vehicles insured at period end (m)	0.19	0.41	0.09	0.17	0.86
Turnover (£m)	49.8	118.2	38.3	159.6	365.9

*1 Alternative Performance Measures – refer to the end of this report for definition and explanation

Admiral operates four insurance businesses outside the UK: in Spain (Admiral Seguros), Italy (ConTe), the US (Elephant Auto) and France (L'olivier – assurance auto).

In 2017, Admiral's International Insurance businesses continued to grow strongly. Combined turnover grew by 23% to £449.8 million (2016: £365.9 million) and customer numbers also grew by 20% to 1.03 million (2016: 0.86 million). In aggregate the businesses reduced losses to £14.3 million from £19.4 million.

The key features of the International Car insurance results are:

- An aggregate loss of £14.3 million (2016: loss of £19.4 million);
- A record profit in the Group's Italian business ConTe, which also grew its customer base to 0.5 million customers;
- A significant improvement in Elephant Auto's result, despite the impact of hurricane Harvey in Texas (approximately £2.9m);
- An improved combined ratio of 121% reflecting reduced acquisition costs, positive back year development and improvements in pricing;
- Continued investment in growing all the operations; and
- An increase in the claims reserves margin held above actuarial best estimates in France and Spain to mirror the same conservative approach already adopted in the UK and Italy.

The consolidated result of the European operations was a combined loss of £1.9 million for the year (2016: loss £3.7 million) including a strong second half of the year which saw profits of £3.1 million. The combined results reflect the profit in Italy offset by investment in growth in Spain and France. The growth in Spain and France also impacted on the combined ratio net of other revenue (excluding the impact of reinsurer caps) which increased to 103% (2016: 101%).

Elephant's loss in the period was £12.5 million, down from £15.7 million in 2016. Elephant improved both key operating ratios despite the continued strong growth and the impact of the severe weather in Texas. The combined ratio net of other revenue improved to 119% from 130%. The impact of the hurricane on the 2017 result was approximately £2.9 million.

In 2017, a non-cash impairment charge of £25m was recognised by the parent company in respect of its investment in Elephant Auto. This followed the regular review of the carrying value of subsidiary companies and coincided with a review of the long-term strategy of Elephant by its management team and subsequent approval by the Board. During 2017, additional capital of £16 million was provided to Elephant to continue to maintain a strong surplus over regulatory requirements. Elephant remains loss making at this stage in its development, which is in line with its long-term plan. Whilst the long-term plan did support the carrying value of the subsidiary, impairment was considered appropriate following the results of a number of stress tests applied to the plans.

During 2017 the management team at Elephant has been strengthened and a number of important operational improvements have been made. Although success is not certain, the Board remains confident in the prospects of the business and continues to support Elephant in the achievement of its goals. The impairment charge has no impact on the Group's profit for the period or capital position.

International Car Insurance co-insurance and reinsurance
In 2017 Admiral retained 35% (Italy), 30% (France and Spain) and 33% (USA) of the underwriting risk respectively. The arrangements for 2018 will remain the same.

International Car Insurance Regulatory environment
Admiral's European insurance operations are currently subject to the same regulation as the UK Car Insurance business, details of which are summarised above, but also comply with local requirements as appropriate. Further information on the potential impact of Brexit on the European insurance operations can be found elsewhere in this report.

The Group's US insurer, Elephant Insurance Company, is regulated by the Virginia State Corporation Commission's Bureau of Insurance. The Company is required to maintain capital at levels prescribed by the regulator and holds a surplus above these requirements at all times.

Price Comparison

Elena Betes – European Price Comparison Director
Our original market, the UK, gives us some guidelines for the expected development of PCWs around the world; first, we expect digital insurance comparison will grow substantially - it is still under-penetrated around the world; and second, there are a limited number of players that will succeed in each country.

Admiral has driven organic international expansion in PCW around the world, Spain (Rastreator.com), France (LeLynx.fr), Italy (Chiarezza.it), USA (Compare.com), China (Duobi), Mexico (Rastreator.mx) and more coming. We believe our proven capability to organically set up successful PCW for a reasonable investment with clean exits where needed (Italy and China), allows us to increase our total addressable market substantially and allows us to keep growing in the future while the UK faces a more competitive market.

Being based in several locations allows us to anticipate customer needs and to promote innovation. Developing our own platforms give us scalability. We believe that our world requires some disruption to improve customer experience.

In all countries, brand development and investment is required to attract relevant traffic, however our core, car insurance, provides us sufficient margin and potential to create relevant brands to leverage the diversification.

Strategically, we hope to keep expanding and play relevant roles in the markets we are in. Big challenges and big opportunities in a business model with low barriers to entry but high barriers to lead and succeed.

UK – Louise O'Shea – CEO, Confused.com
In 2017, Confused.com celebrated 15 years of establishing insurance comparison in the UK, creating a growing and profitable industry and most importantly, saving millions of customers time and money. Much has changed since we attracted our first customer back in 2002 and as the Group's most mature price comparison business we have a lot to be proud of.

The UK price comparison market is developed and extremely competitive, with over 70% of car insurance new business originating from price comparison. The competitive environment shows no signs of diminishing as the top four price comparison websites spent in excess of £110m on TV advertising alone, and we have seen increased acquisition costs across most of our media channels.

2017 has continued to be a period of change and investment, as we focus on differentiating the Confused.com brand by establishing our Drivers Win campaign and further developing significant projects including our Car Finance product and Car Buying/Selling. We believe these innovative products will reinforce our position as the go-to place for all things driver related. This investment in our strategy has, however, impacted our 2017 results, reducing profit to £10.1 million from £16.1 million.

2017 has seen Confused.com focus its attention on what it does best: saving drivers money throughout their journey from buying, insuring, running and selling their vehicle. Looking to 2018, we aim to turn that driving frown upside down by building on this strategy.

Spain – Fernando Summers – CEO, Rastreator
2017 has been a year of challenge and growth for Rastreator. A major challenge was to improve price accuracy and conversion in our core business while maintaining growth in all business lines. And we can proudly say we have achieved both. Conversion is at its historical maximum while we keep on improving revenues, sales and profit. Challenges remain: improving customer experience, maximising profitability and growing revenue for other business lines.

Focus areas for 2018 are to consolidate our core business, as we develop our data strategy, and launch our Car Buying/Selling vertical and mortgage brokerage model. We plan to do this by improving customer experience in our existing verticals.

I am proud of our Rastreator team; strong and committed in our ambition and attitude.

France – Martin Coriat – CEO, LeLynx
In 2017, the French Market became more competitive for aggregators - strong competitors and a significant new entrant helped grow the market. The French economy showed signs of change, growth and digitalization with insurance aggregation seeing double-digit market growth.

As for operational results, LeLynx had a positive year in 2017, with both revenue and profit growing. The business has gone from strength to strength; the team has grown; while the market dynamics have become more complex although more promising. During 2017 we also made operational changes that will support future growth. Finally, LeLynx ranked 11th in the Great Place to Work in France in its first year of participation!

Our 2018 priorities remain similar to 2017: focus on operational execution, build our brand equity to grow the market and expand our product range to make the most of media investment and brand equity.

USA – Andrew Rose – CEO, Compare.com

2017 was a year of challenges for US auto insurance. Frequency continued to be problematic with the blame laid at the feet of miles driven and distracted driving and a series of hurricanes added to the complications for the industry. Insurers looked to raise prices - and they did - differing amounts at different times in different markets. Our marketing followed the opportunities, going into and out of states and specific markets, but all the while growing.

Compare.com had the wonderful combination of increasing volumes while at record low acquisition costs in 2017. This allowed us to achieve marketing breakeven early in the year and continue it for the rest of 2017. We added a variety of key carriers including nationally recognized Travelers and Allstate's Encompass brand. Equally important, our existing panel members expanded through state additions, risk spectrum expansions, and the addition of the homeowners product in nearly half our states.

All of the above allowed us to continue our national TV advertising campaign as well as expand digital marketing into 2/3rds of the states. While the competitive landscape remains largely unchanged, we are encouraged to see our pseudo-competitors raising money and getting new leadership. We remain in a mode of trying to grow comparison as a category in the US before we have to directly compete with other comparison sites.

2017 delivered a much smaller-than-planned loss but, unlike 2016, it was done with overall volumes near planned levels. This is key as we remain ever aware that we are an important part of Admiral's future and hope to be a meaningful contributor in the years to come. The key is to nudge the US comparison market ever so slightly out of its nascent state allowing the market size to make the reward great for Admiral.

2018 looks to be an exciting year for Compare.com. We remain confident, but always cautiously optimistic, about our opportunity for success.

Price Comparison financial review

£m	2017	2016	2015
Revenue	**143.6**	**129.2**	**108.1**
Profit/(loss) before tax	**5.4**	**(2.9)**	**(15.5)**
Confused.com profit	10.1	16.1	12.5
International price comparison result	(4.7)	(19.0)	(28.0)
	5.4	**(2.9)**	**(15.5)**
Group's share of profit/(loss) before tax *1			
Confused.com profit	10.1	16.1	12.5
International price comparison result	(3.0)	(13.4)	(19.7)
	7.1	**2.7**	**(7.2)**

*1 Alternative Performance Measure – refer to the end of this report for definition and explanation

Admiral operates four price comparison businesses; in the UK (Confused.com), in Spain (Rastreator), France (LeLynx) and the US (Compare.com). Admiral Group owns 75% of Rastreator and 71% of Compare.com.

Admiral's Price Comparison businesses have grown combined revenue by 11% to £143.6 million (2016: £129.2 million) and made a combined profit (excluding minority interests' shares) of £7.1 million (2016: £2.7 million).

The key features of the Price Comparison results are:

- A significantly reduced loss of £7.1 million (2016: £16.4 million) at Compare.com in the US, (Admiral Group share). Statutory loss before tax decreased to £10.0 million from £22.8 million. The results reflect the continued focus on efficient marketing which delivered growing sales volumes;
- Confused.com in the UK continued to invest in its new focus on motor-related products and services, with increased marketing costs leading to a reduced profit of £10.1 million (2016: £16.1 million); and
- The European price comparison businesses reported a record profit of £4.1 million (2016: £2.7 million) reflecting the ongoing, strong performance from Rastreator which continues to build on its multi-product strategy and an improved result from LeLynx.

Confused.com turnover increased marginally to £87.1 million (2016: £85.7 million). The high level of competition in the price comparison market and pursuit of the new strategy of Drivers Win required a significant level of investment and contributed to significantly lower profits during 2017.

The combined revenue from the European operations increased by 23% to £44.4 million (2016: £36.2 million), reflecting continued growth in traffic and quotes provided to customers and improved conversion rates. Both Rastreator and LeLynx continue to enjoy strong brand recognition in their respective markets.

In the US, Compare.com exceeded its target of 'marketing break-even' (revenue minus marketing expenses) in selected states by achieving the goal nationally, and for the year as a whole. The business delivered substantial improvements in its main key performance indicators, including reduced cost per quote and sale metrics while at the same time growing quote and sales volumes.

Compare.com's plans for 2018 and beyond include continuing to scale marketing activity while further enhancing conversion and improving the panel of insurers and customer journey. The Group anticipates that the Group's share of Compare.com's losses for 2018 will be in the range of $5-$15 million.

Preminen, the Group's price comparison venture with Mapfre, continues to explore price comparison in new markets overseas and has recently launched a price comparison operation in Mexico.

Price Comparison Regulatory environment
Confused.com is regulated by the Financial Conduct Authority (FCA) as an insurance intermediary and is subject to all relevant intermediation rules, including those on solvency capital.

The European operations are currently structured as branches of UK companies, with the UK insurance intermediary permission passported into Europe. Further information on the potential impact of Brexit on the European price comparison operations can be found earlier in this report.

Compare.com is a regulated insurance agency domiciled in Virginia, US, and licensed in all other US states.

Other Group Items

Other Group items financial review

£m	2017	2016	2015
UK Commercial Vehicle operating profit	1.1	2.0	1.5
Admiral Loans operating loss	(4.4)	-	-
Other interest and investment income	8.4	13.4	6.5
Share scheme charges	(35.2)	(31.5)	(27.0)
Business development costs	(5.2)	(5.2)	(1.8)
Other central overheads	(6.2)	(4.1)	(5.6)
Finance charges	(11.4)	(11.4)	(11.1)
Group's share of Other Group items result	**(52.9)**	**(36.8)**	**(37.5)**

The UK commercial vehicle result relates to the Gladiator broking business which is migrating its portfolio to being underwritten within the UK Insurance business of the Group. Future results from the business are expected to be insignificant.

During the first half of 2017, the Group successfully rolled out the first release of its new technology platform for UK Personal Loans. The business now distributes unsecured personal loans and car finance through the price comparison channel and also direct to consumers via the Admiral website. The Group expects the business to make small losses in its early phase mostly as a result of high fixed costs relative to the current scale of the business.

Other interest and investment income of £8.4 million (2016: £13.4 million) includes £5.4 million (2016: nil) of realised gains on investments held by the Group parent company and unrealised losses of £2.3million (2016: £6.5 million unrealised gains) in respect of forward foreign exchange contracts.

Share scheme charges relate to the Group’s two employee share schemes (refer to note 8 to the financial statements). The increase in the charge is due to an increase in the number of awards reflecting the increasing Group headcount. The Group does not anticipate further significant increases in the volume of awards.

Business development costs include costs associated with potential new ventures, including the launch of Admiral Travel insurance and investment in Preminen ventures, including the launch of a price comparison operation in Mexico.

Other central overheads of £6.2m are £2.1m higher than 2016 (£4.1m), as a result of a number of non-recurring costs relating to ongoing Group projects.

Finance charges of £11.4 million (2016: £11.4 million) mainly represent interest on the £200 million subordinated notes issued in July 2014 (refer to note 6 to the financial statements).

UK Exit from the European Union (‘Brexit’)
Although uncertainty remains as to the outcome of the Brexit negotiations between the UK and the EU, the Group has adopted a prudent approach that will ensure it is well prepared in the event of a ‘hard’ Brexit which includes being ready to deal with the likely loss of passporting rights from the UK and Gibraltar into the EU.

Applications for new licenses for insurance and intermediary companies have been made to the Spanish regulator, with approvals expected in 2018.

Separately, two new locally licensed intermediaries will be established through which Rastreator and LeLynx will trade in Spain and France.

Brexit continues to bring risks to the Group, which include:

- The potential for market volatility, particularly in interest and exchange rates;
- The potential for the uncertainty or the emerging terms of exit to trigger or exacerbate less favourable economic conditions in the UK and other countries in which Admiral operates (though it is worth noting that car insurance has tended to be resilient to economic downturns); and
- Potential changes to the rules relating to the free movement of people between the UK and the remaining EU member states.

At present, the Group does not foresee a material adverse impact on day-to-day operations (including customers or staff), nor does it expect the costs associated with any Group restructure to be material in the context of the Group.

Principal Risks and Uncertainties

The Group's 2017 Annual Report will contain an analysis of the Principal Risks and Uncertainties identified by the Group's Enterprise Risk Management Framework, along with the impacts of those risks and actions taken to mitigate them.

Disclaimer on forward-looking statements

Certain statements made in this announcement are forward-looking statements. Such statements are based on current expectations and assumptions and are subject to a number of known and unknown risks and uncertainties that may cause actual events or results to differ materially from any expected future events or results expressed or implied in these forward-looking statements.

Persons receiving this announcement should not place undue reliance on forward-looking statements. Unless otherwise required by applicable law, regulation or accounting standard, the Group does not undertake to update or revise any forward-looking statements, whether as a result of new information, future developments or otherwise.

Consolidated income statement

For the year ended 31 December 2017

	Note	Year ended **31 December 2017 £m**	31 December 2016 £m
Insurance premium revenue		**1,729.9**	1,353.6
Insurance premium ceded to reinsurers		**(1,110.8)**	(804.8)
Net insurance premium revenue	5	**619.1**	548.8
Other revenue	7	**401.1**	360.6
Profit commission	5	**67.0**	54.3
Investment and interest income	6	**41.7**	53.1
Net revenue		**1,128.9**	1,016.8
Insurance claims and claims handling expenses		**(1,308.8)**	(1,103.8)
Insurance claims and claims handling expenses recoverable from reinsurers		**961.7**	709.2
Net insurance claims		**(347.1)**	(394.6)
Operating expenses and share scheme charges	8	**(753.5)**	(648.8)
Operating expenses and share scheme charges recoverable from co- and reinsurers	8	**386.6**	316.4
Net operating expenses and share scheme charges		**(366.9)**	(332.4)
Total expenses		**(714.0)**	(727.0)
Operating profit		**414.9**	289.8
Finance costs	6	**(11.4)**	(11.4)
Profit before tax		**403.5**	278.4
Taxation expense	9	**(71.9)**	(64.3)
Profit after tax		**331.6**	214.1
Profit after tax attributable to:			
Equity holders of the parent		**334.2**	222.2
Non-controlling interests (NCI)		**(2.6)**	(8.1)
		331.6	214.1
Earnings per share			
Basic	11	**117.2p**	78.7p
Diluted	11	**117.0p**	78.5p

Dividends declared and paid (total)	11	**300.3**	349.8
Dividends declared and paid (per share)	11	**107.5**	126.3p

Consolidated statement of comprehensive income

For the year ended 31 December 2017

	Year ended	
	31 December 2017 £m	31 December 2016 £m
Profit for the period	**331.6**	214.1
Other comprehensive income		
Items that are or may be reclassified to profit or loss		
Movements in fair value reserve	**12.4**	30.3
Deferred tax charge in relation to movement in fair value reserve	**(4.1)**	(0.5)
Exchange differences on translation of foreign operations	**(8.0)**	21.2
Other comprehensive income for the period, net of income tax	**0.3**	51.0
Total comprehensive income for the period	**331.9**	265.1
Total comprehensive income for the period attributable to:		
Equity holders of the parent	**334.8**	271.3
Non-controlling interests	**(2.9)**	(6.2)
	331.9	265.1

Consolidated statement of financial position

As at 31 December 2017

	Note	As at 31 December 2017 £m	31 December 2016 £m
ASSETS			
Property and equipment	10	**31.3**	32.0
Intangible assets	10	**159.4**	162.3
Deferred income tax	9	**0.3**	8.4
Reinsurance assets	5	**1,637.6**	1,126.4
Insurance and other receivables	6, 10	**939.7**	782.6
Loans and advances to customers	6, 10	**66.2**	2.3
Financial investments	6	**2,697.8**	2,420.2
Cash and cash equivalents	6	**326.8**	326.6
Total assets		**5,859.1**	4,860.8
EQUITY			
Share capital	11	**0.3**	0.3
Share premium account		**13.1**	13.1
Other reserves		**52.4**	51.8
Retained earnings		**580.3**	505.7
Total equity attributable to equity holders of the parent		**646.1**	570.9
Non-controlling interests		**9.7**	10.8
Total equity		**655.8**	581.7
LIABILITIES			
Insurance contracts	5	**3,313.9**	2,749.5
Subordinated and other financial liabilities	6	**224.0**	224.0
Trade and other payables	6, 10	**1,641.6**	1,292.2
Current tax liabilities		**23.8**	13.4
Total liabilities		**5,203.3**	4,279.1
Total equity and total liabilities		**5,859.1**	4,860.8

The accompanying notes form part of these financial statements.

These financial statements were approved by the Board of Directors on 27 February 2018 and were signed on its behalf by:

Geraint Jones

Chief Financial Officer

Admiral Group plc

Company Number: 03849958

Consolidated cash flow statement

For the year ended 31 December 2017

	Note	Year ended 31 December 2017 £m	31 December 2016 £m
Profit after tax		**331.6**	214.1
Adjustments for non-cash items:			
– Depreciation		**10.1**	10.5
– Amortisation of software		**13.8**	12.6
– Share scheme charges	8	**35.6**	33.2
– Investment and interest income	6	**(41.7)**	(53.1)
– Finance costs	6	**11.4**	11.4
– Taxation expense	9	**71.9**	64.3
Change in gross insurance contract liabilities		**564.4**	454.5
Change in reinsurance assets		**(511.2)**	(247.7)
Change in insurance and other receivables		**(154.3)**	(252.3)
Change in loans and advances to customers		**(63.9)**	(2.3)
Change in trade and other payables, including tax and social security		**349.5**	279.9
Cash flows from operating activities, before movements in investments		**617.2**	525.1
Purchases of financial instruments		**(549.2)**	(646.6)
Proceeds on disposal/ maturity of financial instruments		**311.8**	616.9
Interest and investment income received		**8.0**	11.6
Cash flows from operating activities, net of movements in investments		**387.8**	507.0
Taxation payments		**(55.9)**	(76.4)
Taxation receipts		**—**	1.8
Net cash flow from operating activities		**331.9**	432.4
Cash flows from investing activities:			
Purchases of property, equipment and software		**(22.7)**	(31.6)
Net cash used in investing activities		**(22.7)**	(31.6)
Cash flows from financing activities:			
Non-controlling interest capital contribution		**1.8**	(0.2)
Finance costs paid		**(11.2)**	(11.3)
Repayment of finance lease liabilities		**0.1**	(3.4)
Equity dividends paid	11	**(300.3)**	(349.8)
Net cash used in financing activities		**(309.6)**	(364.7)
Net (decrease) / increase in cash and cash equivalents		**(0.4)**	36.1
Cash and cash equivalents at 1 January		**326.6**	265.3
Effects of changes in foreign exchange rates		**0.6**	25.2
Cash and cash equivalents at end of period	6	**326.8**	326.6

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Consolidated statement of changes in equity

For the year ended 31 December 2017

	Attributable to the owners of the Company							
	Share capital £m	Share premium account £m	Fair value reserve £m	Foreign exchange reserve £m	Retained profit and loss £m	**Total £m**	Non-controlling interests £m	**Total equity £m**
At 1 January 2016	0.3	13.1	(1.7)	4.4	599.6	**615.7**	17.2	**632.9**
Profit/(loss) for the period	—	—	—	—	222.2	**222.2**	(8.1)	**214.1**
Other comprehensive income								
Movements in fair value reserve	—	—	30.3	—	—	**30.3**	—	**30.3**
Deferred tax charge in relation to movement in fair value reserve	—	—	(0.5)	—	—	**(0.5)**	—	**(0.5)**
Currency translation differences	—	—	—	19.3	—	**19.3**	1.9	**21.2**
Total comprehensive income for the period	—	—	**29.8**	**19.3**	**222.2**	**271.3**	**(6.2)**	**265.1**
Transactions with equity holders								
Dividends	—	—	—	—	(349.8)	**(349.8)**	—	**(349.8)**
Share scheme credit	—	—	—	—	33.2	**33.2**	—	**33.2**
Deferred tax credit on share scheme credit	—	—	—	—	0.5	**0.5**	—	**0.5**
Contributions by NCIs	—	—	—	—	—	**—**	(0.2)	**(0.2)**
Changes in ownership interests without a change in control	—	—	—	—	—	**—**	—	**—**
Total transactions with equity holders	—	—	—	—	**(316.1)**	**(316.1)**	**(0.2)**	**(316.3)**
As at 31 December 2016	**0.3**	**13.1**	**28.1**	**23.7**	**505.7**	**570.9**	**10.8**	**581.7**
At 1 January 2017	0.3	13.1	28.1	23.7	505.7	**570.9**	10.8	**581.7**
Profit/(loss) for the period	—	—	—	—	334.2	**334.2**	(2.6)	**331.6**
Other comprehensive income								
Movements in fair value reserve	—	—	12.4	—	—	**12.4**	—	**12.4**
Deferred tax charge in relation to movement in fair value reserve	—	—	(4.1)	—	—	**(4.1)**	—	**(4.1)**
Currency translation differences	—	—	—	(7.7)	—	**(7.7)**	(0.3)	**(8.0)**
Total comprehensive income for the period	—	—	8.3	(7.7)	334.2	**334.8**	(2.9)	**331.9**
Transactions with equity holders								
Dividends	—	—	—	—	(300.3)	**(300.3)**	—	**(300.3)**
Share scheme credit	—	—	—	—	37.9	**37.9**	—	**37.9**
Deferred tax credit on share scheme credit	—	—	—	—	2.8	**2.8**	—	**2.8**
Contributions by NCIs	—	—	—	—	—	**—**	1.8	**1.8**
Changes in ownership interests without a change in control	—	—	—	—	—	**—**	—	**—**
Total transactions with equity holders	—	—	—	—	(259.6)	**(259.6)**	1.8	**(257.8)**
As at 31 December 2017	0.3	13.1	36.4	16.0	580.3	**646.1**	9.7	**655.8**

Notes to the financial statements
For the year ended 31 December 2017

1. General information

Admiral Group plc is a company incorporated in England and Wales. Its registered office is at Tŷ Admiral, David Street, Cardiff, CF10 2EH and its shares are listed on the London Stock Exchange.

While the financial information included in this preliminary announcement has been prepared in accordance with the recognition and measurement criteria of International Financial Reporting Standards (IFRSs), this announcement does not itself contain sufficient information to comply with IFRSs. The Company expects to publish full financial statements that comply with IFRSs in March 2018

Adoption of new and revised standards.

The Group has adopted the following IFRS and interpretations during the year, which have been issued and endorsed by the EU:

- Amendments to IAS 7 (Disclosure Initiative) and IAS 12 (Recognition of Deferred tax Assets for Unrealised Losses)

The application of these amendments has not had a material impact on the Group's results, financial position and cash flows.

As at 31 December 2017, the following standards had been endorsed by the EU but are not yet effective:

- IFRS 9 Financial Instruments (effective date 1 January 2018), along with Amendments to IFRS 4 Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts;
- IFRS 15 Revenue from Contracts with Customers (effective date 1 January 2018);
- IFRS 16 Leases (effective date 1 January 2019).

IFRS 9 – Financial Instruments

In 2014, the IASB issued the final version of IFRS 9. The standard has an effective date of 1 January 2018 although earlier application is permitted. The standard affects a number of areas within the accounts including the classification and measurement of financial instruments, and a requirement to use the expected loss impairment model.

In 2017 the Group conducted an assessment of the impact of IFRS 9 and based on current information expects no significant impact on its balance sheet and equity, with the significant classes of financial assets being accounted for using the same measurement and valuation techniques as those currently used.

There is an impact of applying the expected loss model for the first time, with the application of IFRS 9 resulting in earlier impairment charges and the potential for increased volatility. This impact has been assessed and is currently immaterial, at less than £0.5m as at 31 December 2017.

The Group plans to adopt IFRS 9 as of 1 January 2018, in line with its effective date.

IFRS 15 – Revenue from Contracts with Customers

IFRS 15 was issued during 2014, with clarifications to the standard endorsed on 31 October 2017, and will be effective for Admiral on 1 January 2018. The standard introduces a simple, five step principles-based model to be applied to the accounting of all contracts with customers. Revenue from insurance contracts and financial instruments is outside the scope of the IFRS 15.

During 2017, the Group performed an assessment of the impact of the standard on its revenue streams, quantifying this impact on its results, financial position and cash-flows. The primary area of focus of this work was the other revenue generated by a portfolio of products that supplement the core car and household insurance policies and revenue generated by the Group's price comparison businesses, where the new standard could potentially result in a delay in revenue recognition. Management's assessment, based on the work performed, is that the implementation of the standard is not expected to have a material impact on the Group's financial statements, with the majority of material revenue classes not being impacted.

The Group is planning on using the modified retrospective approach on transition, which will result in a cumulative adjustment to retained earnings as at 1 January 2018. The impact on the income statement in future periods is expected to be immaterial.

IFRS 16 – Leases

IFRS 16 Leases was issued in early 2016 and is effective from 1 January 2019. The standard specifies how companies will recognise, measure, present and disclose leases. It presents a single lessee accounting model and requires that assets and liabilities to be recognised in the Consolidated Statement of Financial Position, other than in the cases where leases are of low value or of a short-term nature of 12 months or less.

The Group expects to apply the modified retrospective approach to transition that is permitted under IFRS 16. Impact assessments performed to date conclude that:

- Property leases represent the most significant class of lease held by the Group that will be impacted by the new standard.
- No significant adjustment to IFRS equity is expected at the transition date of 1 January 2019.
- The presentation of the Consolidated Statement of Financial Position is expected to be significantly impacted, with material lease liabilities and 'Right of Use' assets being included for the first time.

The profile of lease related expense recognised in the Income Statement is not expected to change materially.

Standards yet to be endorsed by the EU

There are a number of standards, amendments to standards and interpretations that were issued by 31 December 2017 but have either yet to be endorsed by the EU, or were endorsed shortly after the year end. The following IFRSs have been issued but have not been applied by the Group in these financial statements:

- IFRS 17 Insurance Contracts;
- IFRIC 22 Foreign Currency Transactions and Advance Considerations;
- IFRIC 23 Uncertainty over Income Tax Treatments;
- Annual improvements to IFRS standard 2014-2016 cycle;
- Amendments to IFRS 2 Classification and Measurement of Share-based payment transactions.

IFRS 17 – Insurance contracts

IFRS 17 Insurance Contracts was issued in May 2017. The standard will replace IFRS 4, establishing new principles for the recognition, measurement, presentation and disclosure of Insurance contracts within the scope of the standard. The standard will apply to reporting periods beginning on or after 1 January 2021.

The Group is currently assessing the impact of IFRS 17 on its results and financial position, along with any impacts of the other standards and amendments which have yet to be endorsed.

2. Basis of preparation

The accounts have been prepared on a going concern basis. In considering this requirement, the Directors have taken into account the following:

- The Group's projections for the next 12 months and beyond, in particular the profit forecasts, regulatory capital surpluses and levels and sources of liquidity.
- The risks included on the Group's risk register that could impact on the Group's financial performance, levels of liquidity and solvency over the next 12 months.
- The risks on the Group's risk register that could be a threat to the Group's business model and capital adequacy.

The Group's business activities, together with the factors likely to affect its future development, performance and position are set out in the Strategic Report. The Strategic Report also includes the Group's principal risks and uncertainties. In addition, the Governance report includes the Directors' statement on the viability of the Group over a three year period.

Following consideration of the above, the Directors have reasonable expectation that the Group has adequate resources to continue in operation for the foreseeable future, a period not less than 12 months from the date of this report, and that it is therefore appropriate to adopt the going concern basis in preparing the financial statements.

Further information regarding the Company's business activities, together with the factors likely to affect its future development, performance and position, is set out in the Strategic Report. Further information regarding the financial position of the Company, its cash flows, liquidity position and borrowing facilities are also described in the Strategic Report. In addition, notes 6 and 11 to the financial statements include the Company's objectives, policies and processes for managing its capital; its financial risk management objectives; details of its financial instruments; and its exposures to credit risk and liquidity risk.

The accounting policies set out in the notes to the financial statements have, unless otherwise stated, been applied consistently to all periods presented in these Group financial statements.

The financial statements are prepared on the historical cost basis, except for the revaluation of financial assets classified as fair value through profit or loss or as available for sale. The Group and Company financial statements are presented in pounds sterling, rounded to the nearest £0.1 million.

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. In assessing control, the Group takes into consideration potential voting rights that are currently exercisable. The acquisition date is the date on which control is transferred to the acquirer. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. Losses applicable to the non-controlling interests in a subsidiary are allocated to the non-controlling interests even if doing so causes the non-controlling interests to have a deficit balance.

The preparation of financial statements in conformity with adopted IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the year in which the estimate is reviewed. To the extent that a change in an accounting estimate gives rise to changes in assets and liabilities, it is recognised by adjusting the carrying amount of the related asset or liability in the period of the change.

3. Critical accounting judgements and estimates

Judgements

In applying the Group's accounting policies as described in the notes to the financial statements, management has primarily applied judgement in the following area:

- Classification of the Group's contracts with reinsurers as reinsurance contracts:

A contract is required to transfer significant insurance risk in order to be classified as such. Management reviews all terms and conditions of each such contract, and if necessary obtains the opinion of an independent expert at the negotiation stage in order to be able to make this judgement. All reinsurance contracts (both excess of loss and quota share contracts) held by the Group have been assessed and it has been concluded that all contracts transfer significant insurance risk and have therefore been classified and accounted for as reinsurance contracts within these financial statements.

In addition there are two further significant accounting estimates within the financial statements that also require management to apply judgement:

- Calculation of insurance claims reserves:

The Group’s reserving policy requires management to set insurance claims reserves for the purpose of the financial statements, above the projected best estimate outcome, to allow for unforeseen adverse claims development. Management applies judgement in determining where, above the projected best estimate outcome the insurance claims reserves should sit, in line with the Group’s reserving methodology. Refer to the section on estimation techniques below, and the analysis of Insurance risk in note 5 to the financial statements for further detail on the development of the Group’s reserving methodology applied during the period and the calculation of the projected best estimate outcome.

- Recognition of deferred tax assets relating to unused tax losses:

Management applies judgement in determining the probability of future taxable profits of an entity against which to utilise accumulated losses in determining the recognition of deferred tax assets. In applying this judgement, management makes an assessment of the reliability of approved business plan projections using both qualitative and quantitative factors including the age and status of the business, the Group’s previous experience in similar markets, historic performance against business plans and the application of a number of stress and sensitivity tests to the projections.

Estimation techniques used in calculation of claims provisions and profit commission

Estimation techniques are used in the calculation of the provisions for claims outstanding, which represent a projection of the ultimate cost of settling claims that have occurred prior to the balance sheet date and remain unsettled at the balance sheet date.

The key area where these techniques are used relates to the ultimate cost of reported claims. A secondary area relates to the emergence of claims that occurred prior to the balance sheet date, but had not been reported at that date.

The estimates of the ultimate cost of reported claims are based on the setting of claim provisions on a case-by-case basis, for all but the simplest of claims.

The sum of these provisions is compared with projected ultimate costs using a variety of different projection techniques (for example incurred and paid chain ladder and an average cost of claim approach) to allow an actuarial assessment of their potential outcome. They include allowance for unreported claims.

The most significant sensitivity in the use of the projection techniques arises from any future step change in claims costs, which would cause future claim cost inflation to deviate from historic trends. This is most likely to arise from a change in the regulatory or judicial regime that leads to an increase in awards or legal costs for bodily injury claims that is significantly above or below the historical trend.

The Group’s independent actuarial advisors project best estimate claims reserves using a variety of recognised actuarial techniques.

The Group's reserving policy requires management to reserve above the projected best estimate outcome, to allow for unforeseen adverse claims development. The Group's reserving methodology which determines the basis for setting this reserve estimate has been developed and enhanced in the period in line with new information that has become available in relation to both the projected best estimate reserve and the reserve uncertainty through the Group's development of its internal capital model.

For further detail on objectives, policies and procedures for managing insurance risk, refer to note 5 of the financial statements.

Future changes in claims reserves also impact profit commission income, as the measurement of this income is dependent on the loss ratio booked in the financial statements, and cash receivable is dependent on actuarial projections of ultimate loss ratios.

4. Group consolidation and operating segments

4a. Accounting policies

(i) Group consolidation

The consolidated financial statements comprise the results and balances of the Company and its subsidiaries (together referred to as the Group) for the year ended 31 December 2017 and comparative figures for the year ended 31 December 2016. The financial statements of the Company's subsidiaries are consolidated in the Group financial statements. The Company controls 100% of the voting share capital of all its principal subsidiaries, except Admiral Law Limited, BDE Law Limited, Inspop USA LLC, the indirect holding in comparenow.com Insurance Agency LLC, Rastreator.com Limited, the indirect holding in Comparaseguros Correduría de Seguros, S.L., Sociedad Unipersonal, Preminen Price Comparison Holdings Limited and the indirect holding in Preminen Dragon Price Comparison Limited.

The Parent Company financial statements present information about the Company as a separate entity and not about its Group. In accordance with IAS 24, transactions or balances between Group companies that have been eliminated on consolidation are not reported as related party transactions in the consolidated financial statements.

(ii) Foreign currency translation

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in pounds sterling, rounded to the nearest £0.1 million, which is the Group's presentation currency.

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement.

Non-monetary items measured at cost are translated at their historic rate and non-monetary items held at fair value are translated using the foreign exchange rate on the date that the fair value was established.

The financial statements of foreign operations whose functional currency is not pounds sterling are translated into the Group presentation currency (sterling) as follows:

- Assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet.
- Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the date of the transaction).
- All resulting exchange differences are recognised in other comprehensive income and in a separate component of equity except to the extent that the translation differences are attributable to non-controlling interests.

On disposal of a foreign operation, the cumulative amount recognised in equity relating to that particular operation is recognised in the income statement.

4b. Segment reporting

The Group has four reportable segments, as described below. These segments represent the principal split of business that is regularly reported to the Group's Board of Directors, which is considered to be the Group's chief operating decision maker in line with IFRS 8 Operating Segments.

During the period, the Group launched a UK Van Insurance product that is included within the UK Insurance segment. The results from the Group's commercial van broker Gladiator continue to be presented within the 'Other' segment.

UK Insurance

The segment consists of the underwriting of car insurance, van insurance, household insurance and other products that supplement these insurance policies within the UK. It also includes the generation of revenue from additional products and fees from underwriting car insurance in the UK. The Directors consider the results of these activities to be reportable as one segment as the activities carried out in generating the revenue are not independent of each other and are performed as one business. This mirrors the approach taken in management reporting.

International Car Insurance

The segment consists of the underwriting of car insurance and the generation of revenue from additional products and fees from underwriting car insurance outside of the UK. It specifically covers the Group operations Admiral Seguros in Spain, ConTe in Italy, L'olivier - assurance auto in France and Elephant Auto in the US. None of these operations are reportable on an individual basis, based on the threshold requirements in IFRS 8.

Price Comparison

The segment relates to the Group's price comparison businesses: Confused.com in the UK, Rastreator in Spain, LeLynx in France and compare.com in the US. Each of the price comparison businesses are operating in individual geographical segments but are grouped into one reporting segment as Rastreator, LeLynx and compare.com do not individually meet the threshold requirements in IFRS 8.

Other

The 'Other' segment is designed to be comprised of all other operating segments that do not meet the threshold requirements for individual reporting. It includes the Group's commercial van insurance broker, Gladiator and the new Admiral Loans business.

Taxes are not allocated across the segments and, as with the corporate activities, are included in the reconciliation to the Consolidated Income Statement and Consolidated Statement of Financial Position.

An analysis of the Group's revenue and results for the year ended 31 December 2017, by reportable segment, is shown below. The accounting policies of the reportable segments are consistent with those presented in the notes to the financial statements for the Group.

	Year ended 31 December 2017					
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations*2 £m	Total £m
Turnover*1	**2,354.0**	**449.8**	**143.6**	**10.8**	**(19.8)**	**2,938.4**
Net insurance premium revenue	**491.6**	**127.5**	—	—	—	**619.1**
Other Revenue and profit commission	**316.8**	**16.7**	**143.6**	**10.8**	**(19.8)**	**468.1**
Investment and interest income	**32.6**	**0.6**	—	—	—	**33.2**
Net revenue	**841.0**	**144.8**	**143.6**	**10.8**	**(19.8)**	**1,120.4**
Net insurance claims	**(250.1)**	**(97.0)**	—	—	—	**(347.1)**
Expenses	**(124.3)**	**(62.1)**	**(138.2)**	**(8.4)**	**19.8**	**(313.2)**
Segment profit/(loss) before tax	**466.6**	**(14.3)**	**5.4**	**2.4**	—	**460.1**
Other central revenue and expenses, including share scheme charges						**(53.7)**
Investment and interest income						**8.5**
Finance costs						**(11.4)**
Consolidated profit before tax						**403.5**
Taxation expense						**(71.9)**
Consolidated profit after tax						**331.6**
Other segment items:						
– Intangible and tangible asset additions	**37.3**	**30.5**	**0.9**	—	—	**68.7**
– Depreciation and amortisation	**44.4**	**26.8**	**1.0**	**0.1**	—	**72.3**

*1 Turnover is an Alternative Performance Measure and consists of total premiums written (including co-insurers' share) and Other Revenue. Refer to the glossary and note 12 for further information.

*2 Eliminations are in respect of the intra-group trading between the Group's price comparison and UK and International insurance entities.

Revenue and results for the corresponding reportable segments for the year ended 31 December 2016 are shown below.

	Year ended 31 December 2016					
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations*3 £m	Total £m
Turnover*2	2,063.1	365.9	129.2	17.6	(20.8)	2,555.0
Net insurance premium revenue	454.4	94.3	—	0.1	—	548.8
Other Revenue and profit commission	277.2	12.6	129.2	16.7	(20.8)	414.9
Investment and interest income	39.3	0.4	—	—	—	39.7
Net revenue	770.9	107.3	129.2	16.8	(20.8)	1,003.4
Net insurance claims	(317.9)	(76.5)	—	(0.2)	—	(394.6)
Expenses	(114.5)	(50.2)	(132.1)	(14.7)	20.8	(290.7)
Segment profit/(loss) before tax	338.5	(19.4)	(2.9)	1.9	—	318.1
Other central revenue and expenses, including share scheme charges						(41.7)
Investment and interest income						13.4
Finance costs						(11.4)
Consolidated profit before tax						278.4
Taxation expense						(64.3)
Consolidated profit after tax						214.1
Other segment items:						
– Intangible and tangible asset additions	46.2	28.9	0.4	4.2	—	79.7
– Depreciation and amortisation	39.0	22.2	1.3	3.8	—	66.3

*1 Turnover is an Alternative Performance Measure and consists of total premiums written (including co-insurers' share) and Other Revenue. Refer to the glossary and note 12 for further information.

*2 Eliminations are in respect of the intra-group trading between the Group's price comparison and UK and International insurance entities.

Segment revenues

The UK and International Car Insurance reportable segments derive all insurance premium income from external policyholders. Revenue within these segments is not derived from an individual policyholder that represents 10% or more of the Group's total revenue.

The total of Price Comparison revenues from transactions with other reportable segments is £19.8 million (2016: £20.8 million) which has been eliminated on consolidation. There are no other transactions between reportable segments.

Revenues from external customers for products and services are consistent with the split of reportable segment revenues.

Information about geographical locations

All material revenues from external customers, and net assets attributed to a foreign country, are shown within the International Car Insurance reportable segment shown on the previous pages. The revenue and results of the three international Price Comparison businesses, Rastreator, LeLynx and compare.com are not yet material enough to be presented as a separate segment.

Segment assets and liabilities

The identifiable segment assets and liabilities at 31 December 2017 are as follows:

	As at 31 December 2017					
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Total £m
Property and equipment	**24.8**	**5.2**	**1.3**	**—**	**—**	**31.3**
Intangible assets	**68.9**	**25.4**	**1.5**	**63.6**	**—**	**159.4**
Reinsurance assets	**1,364.3**	**273.1**	**—**	**0.2**	**—**	**1,637.6**
Insurance and other receivables	**1,092.8**	**155.5**	**26.4**	**(184.2)**	**(84.6)**	**1,005.9**
Financial investments	**2,411.5**	**50.1**	**3.8**	**—**	**—**	**2,465.4**
Cash and cash equivalents	**169.1**	**103.1**	**27.2**	**20.6**	**—**	**320.0**
Reportable segment assets	**5,131.4**	**612.4**	**60.2**	**(99.8)**	**(84.6)**	**5,619.6**
Insurance contract liabilities	**2,883.4**	**430.2**	**—**	**0.3**	**—**	**3,313.9**
Trade and other payables	**1,495.5**	**128.0**	**12.8**	**5.3**	**—**	**1,641.6**
Reportable segment liabilities	**4,378.9**	**558.2**	**12.8**	**5.6**	**—**	**4,955.5**
Reportable segment net assets	**752.5**	**54.2**	**47.4**	**(105.4)**	**(84.6)**	**664.1**
Unallocated assets and liabilities						**(8.3)**
Consolidated net assets						**655.8**

Unallocated assets and liabilities consist of other central assets and liabilities, plus deferred and current corporation tax balances. These assets and liabilities are not regularly reviewed by the Board of Directors in the reportable segment format.

There is an asymmetrical allocation of assets and income to the reportable segments, in that the interest earned on cash and cash equivalent assets deployed in the UK Insurance, Price Comparison and International Car Insurance segments is not allocated in arriving at segment profits. This is consistent with regular reporting to the Board of Directors.

Eliminations represent inter-segment funding and balances included in insurance and other receivables.

The segment assets and liabilities at 31 December 2016 are as follows:

	As at 31 December 2016					
	UK Insurance £m	International Car Insurance £m	Price Comparison £m	Other £m	Eliminations £m	Total £m
Property and equipment	26.8	4.0	1.2	—	—	32.0
Intangible assets	73.8	23.0	1.8	63.7	—	162.3
Reinsurance assets	881.4	244.7	—	0.3	—	1,126.4
Insurance and other receivables	890.3	132.8	14.8	(185.6)	(67.4)	784.9
Financial investments	2,145.0	45.6	12.2	—	—	2,202.8
Cash and cash equivalents	178.0	100.6	33.0	8.0	—	319.6
Reportable segment assets	4,195.3	550.7	63.0	(113.6)	(67.4)	4,628.0
Insurance contract liabilities	2,359.9	385.4	—	4.2	—	2,749.5
Trade and other payables	1,147.7	122.1	11.3	11.1	—	1,292.2
Reportable segment liabilities	3,507.6	507.5	11.3	15.3	—	4,041.7
Reportable segment net assets	687.7	43.2	51.7	(128.9)	(67.4)	586.3
Unallocated assets and liabilities						(4.6)
Consolidated net assets						581.7

5. Premium, claims and profit commissions

5a. Accounting policies

(i) Revenue – premiums

Premiums relating to insurance contracts are recognised as revenue, net of insurance premium tax, proportionally over the period of cover. Premiums with an inception date after the end of the period are held in the statement of financial position as deferred revenue. Outstanding collections from policyholders are recognised within policyholder receivables.

(ii) Revenue – profit commission

Under some of the co-insurance and reinsurance contracts under which motor premiums are shared or ceded, profit commission may be earned on a particular year of account, which is usually subject to performance criteria such as loss ratios and expense ratios. The commission is dependent on the ultimate outcome of any year, with revenue being recognised when loss and expense ratios used in the preparation of the financial statements move below a contractual threshold. Profit commission receivable from reinsurance contracts is accounted for in line with IFRS 4, whereas profit commission receivable from co-insurance contracts is in line with IAS 18.

(iii) Insurance contracts and reinsurance assets

Premiums

The proportion of premium receivable on in-force policies relating to unexpired risks is reported in insurance contract liabilities and reinsurance assets as the unearned premium provision – gross and reinsurers' share respectively.

Claims

Claims and claims handling expenses are charged as incurred, based on the estimated direct and indirect costs of settling all liabilities arising on events occurring up to the balance sheet date.

The provision for claims outstanding comprises provisions for the estimated cost of settling all claims incurred but unpaid at the balance sheet date, whether reported or not. Anticipated reinsurance recoveries are disclosed separately as assets.

Whilst the Directors consider that the gross provisions for claims and the related reinsurance recoveries are fairly stated on the basis of the information currently available to them, the ultimate liability will vary as a result of subsequent information and events and may result in significant adjustments to the amounts provided.

Adjustments to the amounts of claims provisions established in prior years are reflected in the income statement for the period in which the adjustments are made and disclosed separately if material. The methods used, and the estimates made, are reviewed regularly.

Provision for unexpired risks is made where necessary for the estimated amount required over and above unearned premiums (net of deferred acquisition costs) to meet future claims and related expenses.

Co-insurance

The Group has entered into certain co-insurance contracts under which insurance risks are shared on a proportional basis, with the co-insurer taking a specific percentage of premium written and being responsible for the same proportion of each claim. The co-insurer therefore takes direct insurance risk from the policyholder and is subsequently directly responsible to the claimant for its proportion of the claim. As the contractual liability is several and not joint, neither the premiums nor claims relating to the co-insurance are included in the income statement. Under the terms of these agreements the co-insurers reimburse the Group for the same proportionate share of the costs of acquiring and administering the business.

Reinsurance assets

Contracts entered into by the Group with reinsurers under which the Group is compensated for losses on the insurance contracts issued by the Group are classified as reinsurance contracts. A contract is only accounted for as a reinsurance contract where there is significant insurance risk transfer between the insured and the insurer.

Reinsurance assets are comprised of balances due from reinsurance companies for ceded insurance liabilities. Amounts recoverable from reinsurers are estimated in a consistent manner with the outstanding claims provisions or settled claims associated with the reinsured policies and in accordance with the relevant reinsurance contract.

The Group assesses its reinsurance assets for impairment on a regular basis, and in detail every six months. If there is objective evidence that the asset is impaired, then the carrying value will be written down to its recoverable amount.

On the commutation of reinsurance contracts, the reinsurer is discharged from all obligations relating to the contract. Reinsurance assets and liabilities relating to the commuted contracts are settled in the period in which the commutation agreement is signed.

5b. Net insurance premium revenue

	31 December 2017 £m	31 December 2016 £m
Total motor insurance premiums written before co-insurance	**2,499.4**	2,193.9
Group gross premiums written after co-insurance	**1,927.7**	1,482.0
Outwards reinsurance premiums	**(1,299.7)**	(883.6)
Net insurance premiums written	**628.0**	598.4
Change in gross unearned premium provision	**(197.8)**	(128.4)
Change in reinsurers' share of unearned premium provision	**188.9**	78.8
Net insurance premium revenue	**619.1**	548.8

The Group's share of its insurance business was underwritten by Admiral Insurance (Gibraltar) Limited, Admiral Insurance Company Limited and Elephant Insurance Company. All contracts are short term in duration, lasting for 10 or 12 months.

5c. Profit commission

	31 December 2017 £m	31 December 2016 £m
Underwriting year (UK car only)		
2012 and prior	**50.0**	26.3
2013	**14.7**	26.4
2014 - 2017	**—**	—
Total UK Car profit commission *1	**64.7**	52.7
Total UK Household profit commission *1	**2.3**	1.6
Total profit commission	**67.0**	54.3

*1 Profit commission for the UK Car business relates solely to co-insurance arrangements and profit commission for the UK Household business relates solely to reinsurance arrangements.

No profit commission has yet been recognised on the 2014 – 2017 underwriting years as the combined ratios calculated from the financial statement loss ratios on these years sit above the threshold for profit commission recognition.

5d. Reinsurance assets and insurance contract liabilities

(i) Objectives, policies and procedures for the management of insurance risk

The Group's primary business is the issuance of insurance contracts that transfer risk from policyholders to the Group and its co-insurance partners.

Insurance risk involves uncertainty over the occurrence, amount or timing of claims arising on insurance contracts issued. It is primarily comprised of Reserve risk; the risk that the value of insurance liabilities established is insufficient to cover the ultimate cost of claims incurred at the balance sheet date, and premium risk; the risk that the claims experience on business written but not earned is higher than allowed for in the premiums charged to policyholders.

The Board of Directors is responsible for the management of insurance risk, although as mentioned in note 6, it has delegated the detailed oversight of risk management to the Group Risk Committee.

The Group also has a Reserving Committee which comprises senior managers within the finance, claims, pricing and actuarial functions. The Reserving Committee primarily recommends the approach for UK Car Insurance reserving but also reviews the systems and controls in place to support accurate reserving and material reserving issues such as Periodic Payment Order (PPO) and claims inflation, which represent the key uncertainties in the amount or timing of claims settlements.

The Board implements certain policies in order to mitigate and control the level of insurance risk accepted by the Group. These include pricing policies and claims management and administration processes, in addition to reserving policies and co- and reinsurance arrangements as detailed below.

Reserve Risk

Reserving risk is mitigated through a series of processes and controls. The key processes are as follows:

- Regular management and internal actuarial review of individual and aggregate case claim reserves, including regular reporting of management information and exception reporting of significant movements;
- Regular management and internal actuarial review of large claims, including claims settled or potentially settled by PPOs for which the uncertainty is increased by factors such as the lifetime of the claimant and movements in the indexation for the cost of future care of the claimant;
- Bi-annual external actuarial review of best estimate claims reserves using a variety of recognised actuarial techniques;
- Internal actuarial analysis of reserve uncertainty through qualitative analysis, scenario testing and a range of stochastic reserving techniques;
- Ad hoc external reviews of reserving related processes and assumptions;
- Use of a reserving methodology which informs management's reserving decisions for the purposes of the Group's financial statements. As described in note 3, critical accounting judgements and estimates, the methodology determines that reserves should be set above projected best estimate outcomes to allow for unforeseen adverse claims development.

As noted above, the Group shares a significant amount of the motor insurance business generated with external underwriters. As well as these proportional arrangements, excess of loss reinsurance programmes are also purchased to protect the Group against very large individual claims and catastrophe losses.

Claims reserving

As previously disclosed, Admiral's reserving policy (both within the claims function and in the financial statements) is initially to reserve conservatively, above internal and independent projections of actuarial best estimates. This is designed to create a margin held in reserves to allow for unforeseen adverse development in open claims and typically results in Admiral making above industry average reserve releases. Admiral's booked claims reserves continue to include a significant margin above projected best estimates of ultimate claims costs.

Admiral continues to develop and enhance its methodology in setting the margin held above actuarial best estimates. A wide range of factors inform management's recommendation which is subject to approval from the Group's Reserving and Audit Committees, including:

- Reserve KPIs such as the level of margin as a percentage of the ultimate reserve.
- Results of stress testing of key assumptions underpinning key actuarial assumptions within best estimate reserves.
- A review of a number of individual and aggregated reserve scenarios which may result in future adverse variance to the ultimate best estimate reserve.
- Qualitative assessment of the level of uncertainty and volatility within the reserves and the change in that assessment compared to previous periods.

In addition, the internal reserve risk distribution is used to determine the approximate confidence level of the recommended booked reserve position which enables comparison of the reserve strength to previous periods and demonstration of the compliance with IFRS 4.

As at 31 December 2017, the level of reserve margin is lower than at 31 December 2016, although remains very prudent when measured against the internal reserve risk distribution and other market benchmarks. The reduction in the level of reserve margin since 2016 is partly due to the increased level of confidence over the impact of the Ogden rate change to -0.75%.

As profit commission income is recognised in the income statement in line with loss ratios accounted for on Admiral's own claims reserves, the reserving policy also results in profit commission income being deferred and recognised over time.

Premium Risk

As noted above, the Group defines Premium risk as the risk that claims cost on business written but not yet earned is higher than allowed for in the premiums charged to policyholders. This also includes catastrophe risk; the risk of incurring significant losses as a result of the occurrence of manmade catastrophe or natural weather events.

Key processes and controls operating to mitigate premium risk are as follows:

- Experienced and focused senior management and teams in relevant business areas including pricing and claims management;

- A data-driven and analytical approach to regular monitoring of claims and underwriting performance;
- Capability to identify and resolve underperformance promptly through changes to key performance drivers, in particular pricing.

In addition, as mentioned above, excess of loss reinsurance programmes are also purchased to protect the Group against very large individual claims and catastrophe losses.

Other elements of insurance risk include reinsurance risk; the risk of placement of ineffective reinsurance arrangements, or the economic risk of reduced availability of co-insurance and reinsurance arrangements in future periods.

The Group mitigates these risks by ensuring that it has a diverse range of financially secure reinsurance partners, including a long-term relationship with Munich Re and a number of other high profile reinsurers.

Concentration of insurance risk

The Directors do not believe there are significant concentrations of insurance risk. This is because, although the Group has historically written only one significant line of UK insurance business, the risks are spread across a large number of people and a wide regional base. The introduction of the international car insurance businesses in recent years and the launch of UK household business in 2012 will further contribute to the diversification of the Group's insurance risk as these businesses grow.

(ii) Sensitivity of recognised amounts to changes in assumptions

Ogden discount rate

As noted above, the gross and reinsurers' share of UK motor insurance liabilities in these financial statements are prepared on the basis of an Ogden discount rate of minus 0.75%. On 7 September 2017, the Lord Chancellor announced draft legislation to change the way in which the Ogden discount rate is set, with initial indications being that the new discount rate could be set between 0% and 1%.

The sensitivity of a change in this assumption by 75 basis points (both an increase and decrease) is shown in the table below. This disclosed as Management consider it to be the most material assumption in the projection of the best estimate reserve outcomes. The impact is presented is the total impact of the change on the Group's pre-tax profit on an ultimate basis. It should be noted that not all of the ultimate impact would necessarily be recognised immediately.

	2017 Net £m	2016 Net £m
Impact of increase in assumed Ogden discount rate of 75 basis points (to 0%)	85.6	68.7
Impact of decrease in assumed Ogden discount rate of 75 basis points (to minus 1.5%)	(142.7)	(102.1)

The impacts are stated net of co-insurance reinsurance and include the impact on net insurance claims along with the associated profit commission movements that result from the change in the Ogden rate.

Underwriting year loss ratios – UK Car Insurance

In addition to the sensitivity above, the following table sets out the impact on equity and post-tax profit or loss at 31 December 2017 that would result from a 1% movement (both increase and decrease) in the UK Car insurance loss ratios used for each underwriting year for which material amounts remain outstanding.

	Underwriting year			
	2014	2015	2016	2017
Booked loss ratio	81%	83%	84%	87%
Impact of 1% change (£m)	6.9	5.8	3.5	1.8

As above, the impact is stated net of reinsurance and includes the change in net insurance claims along with the associated profit commission movements that result from changes in loss ratios. The figures are stated net of tax at the current rate.

(iv) Analysis of recognised amounts

	31 December 2017 £m	31 December 2016 £m
Gross		
Claims outstanding*1	**2,403.2**	2,030.8
Unearned premium provision	**910.7**	718.7
Total gross insurance liabilities	**3,313.9**	2,749.5
Recoverable from reinsurers		
Claims outstanding	**1,028.8**	701.6
Unearned premium provision	**608.8**	424.8
Total reinsurers' share of insurance liabilities	**1,637.6**	1,126.4
Net		
Claims outstanding	**1,374.4**	1,329.2
Unearned premium provision	**301.9**	293.9
Total insurance liabilities – net	**1,676.3**	1,623.1

*1 Gross claims outstanding at 31 December 2017 is presented before the deduction of salvage and subrogation recoveries totalling £42.7 million (2016: £37.7m).

The maturity profile of gross insurance liabilities at the end of 2017 is as follows:

	< 1 year £m	**1–3 years £m**	**> 3 years £m**
Claims outstanding	**847.7**	**697.9**	**857.7**
Unearned premium provision	**910.7**	**—**	**—**
Total gross insurance liabilities	**1,758.4**	**697.9**	**857.7**

The maturity profile of gross insurance liabilities at the end of 2016 was as follows:

	< 1 year £m	1–3 years £m	> 3 years £m
Claims outstanding	754.4	700.1	576.3
Unearned premium provision	718.7	—	—
Total gross insurance liabilities	1,473.1	700.1	576.3

(v) Analysis of claims incurred

The following tables illustrate the development of gross and net UK Insurance and International Insurance claims incurred for the past ten financial periods, including the impact of re-estimation of claims provisions at the end of each financial year. The first table shows actual gross claims incurred and the second shows actual net claims incurred. Figures are presented on an underwriting year basis.

	Financial year ended 31 December										
Analysis of claims incurred (gross amounts)	2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
Underwriting year (UK insurance)											
2008 and prior	(179.6)	(62.5)	21.8	13.1	(2.0)	(1.2)	1.2	(2.9)	(3.2)	**(2.3)**	
2009	—	(176.8)	(121.7)	(6.0)	(3.6)	6.2	7.3	0.0	3.2	**0.9**	**(290.5)**
2010	—	—	(260.4)	(257.2)	9.8	36.7	19.5	13.5	4.1	**5.7**	**(428.3)**
2011	—	—	—	(444.3)	(329.7)	43.3	51.4	47.9	(0.9)	**26.8**	**(605.5)**
2012	—	—	—	—	(463.7)	(334.7)	49.8	69.2	8.6	**59.9**	**(610.9)**
2013	—	—	—	—	—	(431.1)	(325.5)	53.6	44.4	**34.2**	**(624.4)**
2014	—	—	—	—	—	—	(438.2)	(347.1)	25.6	**17.1**	**(742.6)**
2015	—	—	—	—	—	—	—	(428.4)	(411.2)	**21.7**	**(817.9)**
2016	—	—	—	—	—	—	—	—	(529.4)	**(463.7)**	**(993.1)**
2017	—	—	—	—	—	—	—	—	—	**(691.8)**	**(691.8)**
UK insurance gross claims incurred	(179.6)	(239.3)	(360.3)	(694.4)	(789.2)	(680.8)	(634.5)	(594.2)	(858.8)	**(991.5)**	
Underwriting year (International insurance)											
2008 and prior	(23.5)	(12.4)	(0.3)	(0.7)	(0.5)	(0.3)	0.2	0.1	0.1	**0.0**	
2009	—	(10.8)	(13.9)	(3.1)	(3.9)	0.1	1.4	0.2	0.0	**0.2**	**(29.8)**
2010	—	—	(17.6)	(26.1)	(7.1)	0.1	3.5	1.0	0.5	**0.4**	**(45.3)**
2011	—	—	—	(35.7)	(42.7)	1.2	5.7	1.7	4.0	**1.2**	**(64.6)**
2012	—	—	—	—	(58.0)	(53.7)	0.7	4.0	6.0	**2.6**	**(98.4)**
2013	—	—	—	—	—	(68.2)	(57.8)	4.2	7.7	**3.3**	**(110.8)**
2014	—	—	—	—	—	—	(85.2)	(65.5)	4.4	**5.8**	**(140.5)**
2015	—	—	—	—	—	—	—	(92.6)	(101.6)	**7.7**	**(186.5)**
2016	—	—	—	—	—	—	—	—	(138.9)	**(125.3)**	**(264.2)**
2017	—	—	—	—	—	—	—	—	—	**(174.1)**	**(174.1)**
International insurance gross claims incurred	(23.5)	(23.2)	(31.8)	(65.6)	(112.2)	(120.8)	(131.5)	(146.9)	(217.8)	**(278.2)**	
Other gross claims incurred	(2.9)	(10.5)	(7.6)	0.0	(1.7)	(2.2)	(7.1)	(5.4)	(0.1)	**(3.6)**	
Claims handling costs	(7.8)	(10.1)	(17.0)	(25.9)	(26.0)	(22.9)	(21.4)	(22.6)	(27.1)	**(35.5)**	
Total gross claims incurred	(213.8)	(283.1)	(416.7)	(785.9)	(929.1)	(826.7)	(794.5)	(769.1)	(1,103.8)	**(1,308.8)**	

Analysis of claims incurred (net amounts)	Financial year ended 31 December 2008 £m	2009 £m	2010 £m	2011 £m	2012 £m	2013 £m	2014 £m	2015 £m	2016 £m	2017 £m	Total £m
Underwriting year (UK insurance)											
2008 and prior	(100.4)	(35.5)	13.1	13.5	(2.0)	(1.2)	1.2	(2.9)	0.4	**5.0**	
2009	—	(96.9)	(67.0)	(4.8)	(3.6)	6.2	7.3	0.0	4.8	**0.4**	**(153.6)**
2010	—	—	(130.2)	(128.6)	8.4	36.7	19.5	13.5	8.8	**6.0**	**(165.9)**
2011	—	—	—	(203.7)	(151.1)	39.7	51.4	47.9	8.4	**26.2**	**(181.2)**
2012	—	—	—	—	(196.0)	(139.3)	49.8	69.2	19.4	**59.1**	**(137.8)**
2013	—	—	—	—	—	(184.4)	(135.0)	38.4	49.3	**36.4**	**(195.3)**
2014	—	—	—	—	—	—	(187.0)	(144.1)	(16.4)	**25.3**	**(322.2)**
2015	—	—	—	—	—	—	—	(182.1)	(162.0)	**(2.6)**	**(346.7)**
2016	—	—	—	—	—	—	—	—	(219.4)	**(180.7)**	**(400.1)**
2017	—	—	—	—	—	—	—	—	—	**(214.3)**	**(214.3)**
UK insurance net claims incurred	(100.4)	(132.4)	(184.1)	(323.6)	(344.3)	(242.3)	(192.8)	(160.1)	(306.7)	**(239.2)**	
Underwriting year (International insurance)											
2008 and prior	(8.2)	(4.8)	(0.1)	(0.3)	(0.2)	(0.1)	0.1	0.0	0.0	**0.0**	
2009	—	(4.4)	(5.6)	(1.6)	(2.0)	0.0	0.7	0.1	0.0	**0.1**	**(12.7)**
2010	—	—	(7.1)	(11.5)	(3.5)	0.0	1.7	0.5	0.2	**0.2**	**(19.5)**
2011	—	—	—	(14.9)	(18.7)	0.4	2.9	0.8	2.0	**0.6**	**(26.9)**
2012	—	—	—	—	(24.2)	(22.8)	(0.8)	2.0	2.2	**1.3**	**(42.3)**
2013	—	—	—	—	—	(26.6)	(23.5)	1.7	4.8	**0.9**	**(42.7)**
2014	—	—	—	—	—	—	(31.6)	(23.3)	1.8	**1.8**	**(51.3)**
2015	—	—	—	—	—	—	—	(33.4)	(39.6)	**5.1**	**(67.9)**
2016	—	—	—	—	—	—	—	—	(47.9)	**(43.5)**	**(91.4)**
2017	—	—	—	—	—	—	—	—	—	**(60.7)**	**(60.7)**
International insurance net claims incurred	(8.2)	(9.2)	(12.8)	(28.3)	(48.6)	(49.1)	(50.5)	(51.6)	(76.5)	**(94.2)**	
Other net claims incurred	(1.3)	(4.4)	(3.1)	0.0	(0.8)	(2.1)	(6.9)	(5.4)	(0.2)	**(2.6)**	
Claims handling costs	(4.7)	(5.7)	(8.5)	(11.9)	(10.8)	(9.5)	(8.9)	(9.4)	(11.2)	**(11.1)**	
Total net claims incurred	(114.6)	(151.7)	(208.5)	(363.8)	(404.5)	(303.0)	(259.1)	(226.5)	(394.6)	**(347.1)**	

The table below shows the development of UK Car Insurance loss ratios for the past five financial periods, presented on an underwriting year basis.

UK Car Insurance loss ratio development	Financial year ended 31 December 2013	2014	2015	2016	**2017**
Underwriting year (UK car only)					
2013	85%	82%	76%	70%	**66%**
2014	—	92%	89%	84%	**81%**
2015	—	—	87%	87%	**83%**
2016	—	—	—	88%	**84%**
2017	—	—	—	—	**87%**

(vi) Analysis of claims reserve releases

The following table analyses the impact of movements in prior year claims provisions on a gross and net basis. Figures are presented on an underwriting year basis.

	Financial year ended 31 December				
Gross	2013 £m	2014 £m	2015 £m	2016 £m	**2017 £m**
Underwriting year (UK insurance)					
2013 and prior	115.8	148.1	181.7	91.0	**132.8**
2014	—	—	16.0	42.8	**25.5**
2015	—	—	—	1.9	**32.5**
2016	—	—	—	—	**24.8**
Total gross release (UK Insurance)	115.8	148.1	197.7	135.7	**215.6**
Total gross release (International Insurance)	—	12.6	14.0	21.0	**23.2**
Total gross release	115.8	160.7	211.7	156.7	**238.8**

	Financial year ended 31 December				
Net	2013 £m	2014 £m	2015 £m	2016 £m	**2017 £m**
Underwriting year (UK Insurance)					
2013 and prior	94.2	137.4	166.7	91.0	**132.8**
2014	—	—	6.7	(16.4)	**25.5**
2015	—	—	—	0.8	**(2.3)**
2016	—	—	—	—	**10.4**
Total net release (UK Insurance)	94.2	137.4	173.4	75.4	**166.4**
Total net release (International Insurance)	—	6.3	6.5	9.9	**9.5**
Total net release	94.2	143.7	179.9	85.3	**175.9**
Analysis of net releases on UK Insurance:					
– Net releases on Admiral net share	53.3	66.8	84.6	58.3	**92.6**
– Releases on commuted quota share reinsurance contracts[*1]	40.9	70.6	88.8	17.1	**73.8**
Total net release as above	94.2	137.4	173.4	75.4	**166.4**

Admiral typically commutes quota share reinsurance contracts in its UK Car Insurance business 24 or 36 months following the start of the underwriting year. After commutation, any changes in claims costs on the commuted proportion of the business are reflected within claims costs and are separately analysed here. Releases on commuted quota share contracts are analysed by underwriting year as follows:

	Financial year ended 31 December				
	2013 £m	2014 £m	2015 £m	2016 £m	**2017 £m**
Underwriting year					
2012 and prior	40.9	70.6	72.5	22.6	**53.7**
2013	—	—	16.3	28.8	**21.0**
2014	—	—	—	(34.3)	**14.9**
2015	—	—	—	—	**(15.8)**
Total releases on commuted quota share reinsurance contracts	40.9	70.6	88.8	17.1	**73.8**

Included within releases on commuted quota share contracts are accruals for additional reserves arising from the commutation of a number of 2015 year UK motor quota share contracts. Any future positive developments of this loss ratio would lead to the reversal of the amounts accrued. Refer to the business review earlier in this report for further detail.

Profit commission is analysed in note 5c.

(vii) Reconciliation of movement in claims provision

	31 December 2017		
	Gross £m	Reinsurance £m	Net £m
Claims provision at start of period	**2,030.8**	**(701.6)**	**1,329.2**
Claims incurred (excluding releases)	**1,512.1**	**(1,000.2)**	**511.9**
Reserve releases	**(238.8)**	**62.9**	**(175.9)**
Movement in claims provision due to commutation	—	**109.1**	**109.1**
Claims paid and other movements	**(900.9)**	**501.0**	**(399.9)**
Claims provision at end of period	**2,403.2**	**(1,028.8)**	**1,374.4**

	31 December 2016		
	Gross £m	Reinsurance £m	Net £m
Claims provision at start of period	1,725.0	(544.8)	1,180.2
Claims incurred (excluding releases)	1,233.4	(764.8)	468.6
Reserve releases	(156.7)	71.4	(85.3)
Movement in claims provision due to commutation	—	186.2	186.2
Claims paid and other movements *1	(770.9)	350.4	(420.5)
Claims provision at end of period	2,030.8	(701.6)	1,329.2

*1 Net claims paid in the year to 31 December 2016 includes salvage and subrogation recoveries of £37.7 million which have been reclassified to insurance and other receivables.

(viii) Reconciliation of movement in net unearned premium provision

	31 December 2017		
	Gross £m	Reinsurance £m	Net £m
Unearned premium provision at start of period	**718.7**	**(424.8)**	**293.9**
Written in the period	**1,927.7**	**(1,299.7)**	**628.0**
Earned in the period	**(1,735.7)**	**1,115.7**	**(620.0)**
Unearned premium provision at end of period	**910.7**	**(608.8)**	**301.9**

	31 December 2016		
	Gross £m	Reinsurance £m	Net £m
Unearned premium provision at start of period	570.0	(333.9)	236.1
Written in the period	1,482.0	(883.6)	598.4
Earned in the period	(1,333.3)	792.7	(540.6)
Unearned premium provision at end of period	718.7	(424.8)	293.9

6. Investments

6a. Accounting policies

(i) Investment income and finance costs

Investment income from financial assets comprises distributions as well as net realised and unrealised gains on financial assets classified as ‘fair value through profit or loss’ (FVTPL), interest income and net realised gains from assets classified as ‘available for sale’ (AFS), and interest income on holdings in term deposits and gilts.

Finance costs from financial liabilities comprise interest expense on subordinated notes, calculated on the effective interest rate method. The effective interest rate method calculates the amortised cost of a financial asset or liability (or group of financial assets or financial liabilities) and allocates the interest income or expense over the expected life of the asset or liability.

(ii) Financial assets – investments and receivables

Initial recognition

Financial assets within the scope of IAS 39 are classified as financial assets at FVTPL, AFS assets, loans and receivables or held to maturity investments.

At initial recognition assets are recognised at fair value and classified according to the purpose for which they were acquired.

The Group’s investments in investment funds are designated as FVTPL at inception.

This designation is permitted under IAS 39, as the investments are managed as a group of assets and internal performance evaluation of this group is conducted on a fair value basis.

The Group’s holdings in Fixed Income and Asset Backed Securities are classified as AFS investments, which is consistent with the intention for which they were purchased.

Government gilts are also classified as AFS investments, in line with IAS 39, due to a reclassification in the period following the disposal of a portion of the holding.

Deposits held with credit institutions are classified as loans and receivables, in line with the nature of these deposits, with 2016 comparatives restated to reflect this more appropriate classification of these assets.

Transaction costs associated with the purchase of all financial assets are expensed within the income statement as incurred.

Subsequent measurement

Financial assets at FVTPL are stated at fair value, with any resultant realised or unrealised gain or loss recognised through the income statement.

Investments classified as available for sale are stated at fair value. Unrealised changes in the fair value of these assets are recognised in Other Comprehensive Income (OCI). Interest income is recognised within profit or loss using the effective interest rate method.

Loans and receivables are stated at their amortised cost less impairment using the effective interest method. Impairment losses are recognised through the income statement.

Impairment of financial assets

The Group assesses at each balance sheet date whether any financial assets or groups of financial assets held at fair value or amortised cost are impaired. Financial assets are impaired where there is evidence that one or more events occurring after the initial recognition of the asset, may lead to a reduction in the estimated future cash flows arising from the asset.

Objective evidence of impairment may include default on cash flows due from the asset and reported financial difficulty of the issuer or counterparty.

Identified impairments of financial assets are recognised in the income statement, except in the case of assets classified as AFS where unrealised gains have been recognised through OCI. In this instance, impairments of the asset are first set against the unrealised gain in OCI with any excess being recognised in the income statement.

De-recognition of financial assets

A financial asset is derecognised when the rights to receive cash flows from that asset have expired, or when the Group transfers the asset and all the attached substantial risks and rewards relating to the asset to a third party.

Cash and cash equivalents

Cash and cash equivalents includes cash in hand, deposits held at call with banks and other short term deposits with original maturities of three months or less. All cash and cash equivalents are measured at amortised cost.

(iii) Financial liabilities

Initial recognition

The Group's financial liabilities comprise subordinated notes and other financial liabilities initially recognised at fair value received, net of transaction costs incurred.

Subsequent measurement

Subsequent measurement is at amortised cost using the effective interest method. Movements in the amortised cost are recognised through the income statement.

De-recognition of financial liabilities

A financial liability is derecognised when the obligation under that liability is discharged, cancelled or expires.

(iv) Fair value measurement of assets held at amortised cost

The fair value of assets held at amortised cost is calculated with reference to quoted market valuations. See note 6d for a comparison of fair value and carrying value at the statement of financial position date.

The Group's deposits are held with well rated institutions; as such the fair value approximates to the book value of the investment based on the interest rates of the instruments, credit risk movements and durations of the assets. The amortised cost carrying amount of receivables is a reasonable approximation of fair value.

6b. Investment and interest income

	31 December 2017 £m	31 December 2016 £m
Investment income		
Investment return on assets classified as FVTPL	**1.9**	2.9
(Losses)/gains on forward contracts	**(2.3)**	6.5
Interest income on AFS debt securities	**27.9**	23.4
Interest income on term deposits with credit institutions[*1]	**3.4**	4.7
Interest income on government gilt assets[*1]	**4.6**	5.4
Realised gains on sale of gilt assets	**5.4**	—
	40.9	42.9
Release of accrual for reinsurers' share of investment returns	—	9.2
	40.9	52.1
Interest receivable on cash and cash equivalents[*1]	**0.8**	1.0
Total investment and interest income	**41.7**	53.1

*1 Interest received during the year was £8.0 million (2016: £11.6 million)

6c. Finance costs

	31 December 2017 £m	31 December 2016 £m
Interest payable[*1]	**11.4**	11.4
Total finance costs	**11.4**	11.4

*1 Interest paid during the year was £11.1million (2016: £11.3 million)

Finance costs represent interest payable on the £200 million (2016: £200 million) subordinated notes and other financial liabilities.

6d. Financial assets and liabilities

The Group's financial instruments can be analysed as follows:

	31 December 2017 £m	Restated [*1] 31 December 2016 £m
Investments held at fair value through profit or loss		
Investment funds	**1,071.9**	776.3
Derivative financial instruments	**2.4**	4.7
	1,074.3	781.0
Investments classified as available for sale		
Available for sale debt securities	**1,319.7**	1,271.8
Available for sale government gilts	**173.8**	—
	1,493.5	1,271.8
Investments classified as held to maturity		
Government gilts	—	197.4
	—	197.4
Loans and receivables		
Deposits with credit institutions [*1]	**130.0**	170.0
	130.0	170.0
Total financial investments	**2,697.8**	2,420.2
Insurance and financial assets		
Insurance receivables	**737.6**	606.6
Trade and other receivables	**202.1**	176.0
Loans and advances to customers	**66.2**	2.3
Cash and cash equivalents	**326.8**	326.6
Total financial assets	**4,030.5**	3,531.7
Financial liabilities		
Subordinated notes	**204.0**	204.0
Other borrowings	**20.0**	20.0
Trade and other payables	**1,641.6**	1,292.2
Total financial liabilities	**1,865.6**	1,516.2

[*1] 2016 comparatives have been restated to present term deposits held with credit institutions as loans and receivables, as this is considered to be a more appropriate classification of these assets.

Financial liabilities are inclusive of £200 million subordinated notes issued on 25 July 2014 at a fixed rate of 5.5% with a redemption date of 25 July 2024.

The notes are unsecured subordinated obligations of the Group and rank pari passu without any preference among themselves. In the event of a winding-up or bankruptcy, they are to be repaid only after the claims of all other creditors have been met.

There have been no defaults on any of the notes during the year. The Group has the option to defer interest payments on the notes but to date has not exercised this right. The aggregate fair value of subordinated dated notes at the balance sheet date is disclosed in the table below.

The Group holds a revolving credit facility of £100 million which expires in July 2018. As at 31 December 2017, £20 million (2016: £20 million) was drawn under this agreement as shown within other borrowings in the table above.

Fair value measurement

The measurement of investments at the end of the period, for the majority of investments held at fair value and those classified as available for sale, is based on active quoted market values (level one). An immaterial amount of investments held at fair value are measured at level three of the fair value hierarchy. No further information is provided due to the immateriality of the balance at 31 December 2017.

Term deposits are held with well rated institutions; as such the approximate fair value is the book value of the investment as impairment of the capital is not expected. There is no quoted market for these holdings and as such a level two valuation is used. The book value of term deposits is £130.0 million (2016: £170.0 million).

The amortised cost carrying amount of receivables is a reasonable approximation of fair value.

The fair value of subordinated notes (level one valuation) at 31 December 2017 is £229.2 million (2016: £212.9 million).

The maturity profile of financial assets and liabilities at 31 December 2017 is as follows:

	On demand £m	< 1 year £m	Between 1 and 2 years £m	> 2 years £m
Financial investments				
Investments held at fair value	—	1,074.3	—	—
Term deposits with credit institutions	—	30.0	70.0	30.0
Available for sale debt securities	—	341.2	199.5	779.0
Available for sale government gilts	—	1.0	—	172.8
Total financial investments	—	1,446.5	269.5	981.8
Insurance receivables	—	671.4	—	—
Trade and other receivables	—	268.3	—	—
Loans and advances to customers	17.0	16.9	15.0	17.3
Cash and cash equivalents	326.8	—	—	—
Total financial assets	343.8	2,403.1	284.5	999.1
Financial liabilities				
Subordinated notes	—	4.8	—	199.2
Other borrowings	—	20.0	—	—
Trade and other payables	—	1,641.6	—	—
Total financial liabilities	—	1,666.4	—	199.2

The maturity profile of financial assets and liabilities at 31 December 2016 was as follows:

	On demand £m	< 1 year £m	Between 1 and 2 years £m	> 2 years £m
Financial investments				
Investments held at fair value	776.3	4.7	—	—
Term deposits with credit institutions	—	60.0	40.0	70.0
Available for sale debt securities	2.5	324.4	224.4	720.5
Gilts	—	0.9	—	196.5
Total financial investments	778.8	390.0	264.4	987.0
Insurance receivables	—	606.6	—	—
Trade and other receivables	—	178.3	—	—
Cash and cash equivalents	326.6	—	—	—
Total financial assets	1,105.4	1,174.9	264.4	987.0
Financial liabilities				
Subordinated notes	—	4.8	—	199.2
Other borrowings	—	20.0	—	—
Trade and other payables	—	1,292.2	—	—
Total financial liabilities	—	1,317.0	—	199.2

Objectives, policies and procedures for managing financial assets and liabilities

The Group's activities expose it primarily to financial risks of credit risk, interest rate risk, liquidity risk and foreign exchange risk. The Board of Directors has delegated the task of supervising risk management and internal control to the Group Risk Committee. There is also an Investment Committee that makes recommendations to the Board on the Group's investment strategy.

There are several key elements to the risk management environment throughout the Group. These are detailed in full in the Corporate Governance Statement. Specific considerations for the risks arising from financial assets and liabilities are detailed below.

Credit risk

The Group defines credit risk as the risk of loss if another party fails to perform its obligations. The key areas of exposure to credit risk for the Group result through its reinsurance programme, investments, bank deposits and policyholder receivables.

The Directors consider counterparty exposure frequently and in significant detail. The Directors consider that the policies and procedures in place to manage credit exposure continue to be appropriate for the Group's risk appetite and, during 2017 and historically, no material credit losses have been experienced by the Group.

There are no specific concentrations of credit risk with respect to investment counterparties due to the structure of the liquidity funds and the parameters set for managing the Fixed Income Mandates. Both forms of investment hold a wide range of very short duration, high quality securities. Cash balances and deposits are placed only with highly rated credit institutions. The detailed holdings are reviewed regularly by the Investment Committee.

To mitigate the risk arising from exposure to reinsurers (in the form of reinsurance recoveries and profit commissions), the Group only conducts business with companies of appropriate financial strength ratings. In addition, many reinsurance contracts are operated on a funds withheld basis, which substantially reduces credit risk, as the Group withholds the cash received from policyholders as collateral.

The other principal form of credit risk is in respect of amounts due from policyholders, largely due to the potential for default by instalment payers. The impact of this is mitigated by the large customer base and low average level of balance recoverable. There is also mitigation by the operation of numerous high- and low-level controls in this area, including payment on policy acceptance as opposed to inception and automated cancellation procedures for policies in default.

The Group's maximum exposure to credit risk at 31 December 2017 is £3,723.8 million (2016: £3,263.0 million), being the carrying value of financial investments and cash, and the excess of reinsurance assets over amounts owed to reinsurers under funds withheld arrangements. The Group does not use credit derivatives or similar instruments to mitigate exposure. The amount of bad debt expense relating to policyholder debt charged to the income statement in 2017 and 2016 is insignificant. £1.0m was charged to the income statement in respect of loans and advances to customers.

There were no significant financial assets that were past due at the close of either 2017 or 2016.

The Group's credit risk exposure to assets with external ratings is as follows:

	Rating	**31 December 2017 £m**	31 December 2016 £m
Financial institutions – Credit institutions	AAA	**210.7**	269.3
Financial institutions – Credit institutions	AA	**650.3**	733.8
Financial institutions – Credit institutions	A	**1,737.0**	1,305.6
Financial institutions – Credit institutions	BBB and below	**249.7**	236.0
UK Government gilts	AA	**173.8**	197.4
Reinsurers	AA	**355.7**	295.6
Reinsurers	A	**256.4**	141.6

Interest rate risk

The Group considers interest rate risk to be the risk that unfavourable movements in interest rates could adversely impact on the capital values of financial assets and liabilities.

As noted above, the Group primarily invests the following asset types:

- Investment funds and cash plus liquidity funds, which in turn invest in a mixture of short dated fixed and variable rate securities, such as cash deposits, certificates of deposits, floating rate notes and other commercial paper.
- Term deposits with well rated institutions are short in duration (one to five years). These are classified as term and valued at amortised cost. Therefore neither the carrying value of the asset, nor the interest return will be impacted by fluctuations in interest rates.

- Available for sale debt securities. These securities are held within two segregated mandates. The guidelines of the investments retain a similar credit quality of the investment funds (all holdings are investment grade). The duration of the securities is relatively short and similar to the duration of the on book claims liabilities (the average duration is three years).

- UK Government gilts. These are classified as available for sale due to a sale of a portion of the assets in 2017.

The Group also holds a financial liability in the form of £200 million of subordinated notes with a ten year maturity and fixed rate coupon of 5.5%. This liability is valued at amortised cost and therefore neither the carrying value of the deposits, nor the interest payable, will be impacted by fluctuations in interest rates.

No sensitivity analysis to interest rates has been presented on the grounds of materiality.

Liquidity risk

Liquidity risk is defined as the risk that the Group does not have sufficient, available financial resources to enable it to meet its obligations as they fall due, or can only secure them at excessive cost.

The Group is strongly cash-generative due to the large proportion of revenue arising from non-underwriting activity. Further, as noted above, a significant portion of insurance funds are invested in investment funds with same day liquidity, meaning that a large proportion of the Group cash and investments is immediately available.

A breakdown of the Group's other financial liabilities, trade payables and other payables is shown in note 10.

The subordinated notes have a ten year maturity whereas all trade and other payables will mature within three to six months of the balance sheet date. (Refer to the maturity profile at the start of this note for further detail.)

In practice, the Group's Directors expect actual cash flows to be consistent with this maturity profile except for amounts owed to co-insurers and reinsurers. Of the total amounts owed to co-insurers and reinsurers of £1,157.5 million (2016: £938.0 million), £938.4 million (2016: £610.1 million) is held under funds withheld arrangements and therefore not expected to be settled within 12 months.

A maturity analysis for insurance contract liabilities is included in note 5. The maturity profile for financial assets is included at the start of this note.

The Group's Directors believe that the cash flows arising from these assets will be consistent with this profile. Liquidity risk is not, therefore, considered to be significant.

Foreign exchange risk

Foreign exchange risk arises from unfavourable movements in foreign exchange rates that could adversely impact the valuation of overseas assets and liabilities.

The Group is exposed to foreign exchange risk through its operations overseas. Although the relative size of the international operations means that the risks are relatively small, increasingly volatile foreign exchange rates could result in larger potential gains or losses. Assets held to fund insurance liabilities are held in the currency of the liabilities; however, surplus assets held as regulatory capital in foreign currencies remain exposed.

The Group's exposure to net assets and profits in currencies other than the reporting currency is immaterial other than for US dollars. The Group's exposure to net assets held in dollars at the balance sheet date was £55.1million (2016: £70.5 million).

The loss before tax derived from business carried out in the US was £23.4 million (2016: £39.1 million). If the Sterling rates with US dollars had strengthened/weakened by 10%, the Group's profit before tax for the year would increase/decrease by £2.2 million (2016: £3.6 million).

Fair value

For cash at bank and cash deposits and other receivables, the fair value approximates to the book value due to their short maturity. For assets held at fair value through profit and loss, their value equates to level one (quoted prices in active markets) of the fair value hierarchy.

For gilts and subordinated notes, the fair value is calculated with reference to the quoted market valuation. This is compared to carrying value earlier in this note.

6e. Cash and cash equivalents

	31 December 2017 £m	31 December 2016 £m
Cash at bank and in hand	**325.3**	326.4
Short-term deposits	**1.5**	0.2
Total cash and cash equivalents	**326.8**	326.6

Cash and cash equivalents includes cash in hand, deposits held at call with banks, and other short-term term deposits with original maturities of three months or less.

7. Other Revenue

7a. Accounting policy

(i) Contribution from additional products and fees and Other Revenue

Contribution from additional products and fees and Other Revenue includes revenue earned on the sale of products supplementing the core motor, van and household insurance policies, administration and other charges paid by the policyholder, referral fees, revenue from policies paid by instalments and vehicle commission charges paid by co- and reinsurers. Revenue is credited to the income statement over the period matching the Group's obligations to provide services. Where the Group has no remaining contractual obligations, the revenue is recognised immediately. An allowance is made for expected cancellations where the customer may be entitled to a refund of amounts charged.

Commission from price comparison activities and broking commission earned by Gladiator is credited to revenue on the sale of the underlying insurance policy.

7b. Contribution from additional products and fees and Other Revenue

	31 December 2017 £m	31 December 2016 £m
Contribution from additional products and fees	**207.3**	198.9
Instalment income	**59.2**	36.4
Price comparison revenue*1	**123.8**	108.4
Interest on loans and advances to customers	**1.2**	0.1
Other revenue	**9.6**	16.8
Total Other Revenue	**401.1**	360.6

*1 Price comparison revenue excludes £19.8 million (2016: £20.8 million) of income from other Group companies.

Refer to the Strategic Report for further detail on the sources of revenue.

8. Expenses

8a. Accounting policies

(i) Acquisition costs and operating expenses

Acquisition costs incurred in obtaining new and renewal business are charged to the income statement over the period in which those premiums are earned. All other operating expenses are charged to the income statement in the period that they are incurred.

(ii) Employee benefits

Pensions

The Group contributes to defined contribution personal pension plans for its employees. The contributions payable to these schemes are charged in the accounting period to which they relate.

Employee share schemes

The Group operates a number of equity and cash settled compensation schemes for its employees. The fair value of the employee services received in exchange for the grant of free shares under the equity settled schemes is recognised as an expense, with a corresponding increase in equity. For cash settled schemes, the fair value of services received are also recognised as an expense, with a corresponding increase in liability.

For equity settled schemes, the total charge expensed over the vesting period is determined by reference to the fair value of the free shares granted as determined at the grant date (excluding the impact of non-market vesting conditions). Non-market conditions such as profitability targets as well as staff attrition rates are included in assumptions over the number of free shares to vest under the applicable scheme.

For cash settled schemes, the total charge expensed over the vesting period is determined by reference to the closing Admiral Group share price at the end of the period. Prior to the vesting of each scheme, the closing share price at the end of the reporting period is used as an approximation for the closing share price at the end of the vesting period. As with equity settled schemes, non-market vesting conditions also impact on the total charge expensed over the vesting period.

At each balance sheet date, the Group revises its assumptions on the number of shares to be granted with the impact of any change in the assumptions recognised through income.

Refer to note 8f for further details on share schemes.

(iii) Leases

Operating leases

Leases which do not transfer to the Group substantially all the risks and benefits incidental to ownership of the leased items are classified as operating leases. The Group has entered into a number of non-cancellable operating lease arrangements for properties and other assets. The leases have varying terms, escalation values and renewal rights.

Operating lease payments, including the effects of any lease incentives, are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rentals are recognised as an expense in the period in which they are incurred.

8b. Operating expenses and share scheme charges

	31 December 2017		
	Gross £m	Recoverable from co- and reinsurers £m	Net £m
Acquisition of insurance contracts[*1]	**122.0**	**(93.3)**	**28.7**
Administration and other marketing costs (insurance contracts)	**353.5**	**(274.5)**	**79.0**
Insurance contract expenses	**475.5**	**(367.8)**	**107.7**
Administration and other marketing costs (other)	**223.6**	**—**	**223.6**
Share scheme charges	**54.4**	**(18.8)**	**35.6**
Total expenses and share scheme charges	**753.5**	**(386.6)**	**366.9**

	31 December 2016		
	Gross £m	Recoverable from co- and reinsurers £m	Net £m
Acquisition of insurance contracts*1	98.0	(75.4)	22.6
Administration and other marketing costs (insurance contracts)	293.9	(222.6)	71.3
Insurance contract expenses	391.9	(298.0)	93.9
Administration and other marketing costs (other)	206.6	—	206.6
Share scheme charges	50.3	(18.4)	31.9
Total expenses and share scheme charges	648.8	(316.4)	332.4

*1 Acquisition of insurance contracts expense excludes £19.8 million (2016: £20.8 million) of aggregator fees from other Group companies.

The £79.0 million (2016: £71.3 million) administration and marketing costs allocated to insurance contracts is principally made up of salary costs.

Analysis of other administration and other marketing costs:

	31 December 2017 £m	31 December 2016 £m
Expenses relating to additional products and fees	**58.9**	49.9
Price comparison operating expenses	**138.2**	132.1
Other expenses	**26.5**	24.6
Total	**223.6**	206.6

Refer to note 12 for a reconciliation between insurance contract expenses and the reported expense ratio.

8c. Staff costs and other expenses

	31 December 2017		31 December 2016	
	Total £m	**Net £m**	Total £m	Net £m
Salaries	**239.2**	**85.3**	203.7	79.4
Social security charges	**22.9**	**8.7**	18.8	7.6
Pension costs	**7.0**	**2.3**	6.8	2.3
Share scheme charges (see note 8f)	**54.4**	**35.6**	50.3	31.9
Total staff expenses	**323.5**	**131.9**	279.6	121.2
Depreciation charge:				
– Owned assets	**10.1**	**3.0**	8.6	3.3
– Leased assets	**—**	**—**	1.9	0.5
Amortisation charge:				
– Software	**13.8**	**4.0**	12.6	4.1
– Deferred acquisition costs	—	**48.4**	—	43.2
Operating lease rentals:				
– Buildings	**13.0**	**4.5**	13.3	4.2
Auditor's remuneration (including VAT):				
– Fees payable for the audit of the Company's annual accounts	**—**	**—**	—	—
– Fees payable for the audit of the Company's subsidiary accounts	**0.3**	**0.3**	0.2	0.2
– Fees payable for audit related assurance services pursuant to legislation or regulation	**0.2**	**—**	0.2	0.1

£nil (2016: £nil) was payable to the auditor for other services in the year.

Total and net expenses are before and after co- and reinsurance arrangements respectively.

Refer to the Corporate Governance Report for details of the Audit Committee's policy on fees paid to the Company's auditor for non-audit services. The ratio of non-audit fees to audit fees in 2017 was 54% (2016: 82%).

The amortisation of software and deferred acquisition cost assets is charged to expenses in the income statement.

8d. Staff numbers (including Directors)

	Average for the year	
	2017 Number	2016 Number
Direct customer contact staff	**6,179**	5,993
Support staff	**3,157**	2,605
Total	**9,336**	8,598

8e. Directors' remuneration

(i) Directors' remuneration

	31 December 2017 £m	31 December 2016 £m
Directors' emoluments	**1.4**	1.6
Amounts receivable under SIP and DFSS share schemes	**0.9**	0.4
Company contributions to money purchase pension plans	**—**	—
Total	**2.3**	2.0

(ii) Number of Directors

	2017 Number	2016 Number
Retirement benefits are accruing to the following number of Directors under:		
– Money purchase schemes	**2**	2

8f. Staff share schemes

Analysis of share scheme costs (per the Consolidated Income Statement):

	31 December 2017 £m	31 December 2016 £m
SIP charge (i)	**6.7**	9.9
DFSS charge (ii)	**28.9**	22.0
Total share scheme charges	**35.6**	31.9

The share scheme charges reported above are net of the co- and reinsurers share of the cost and therefore differ from the gross charge reported in note 8c (2017: £54.4 million; 2016: £50.3 million) and the gross credit to reserves reported in the Consolidated Statement of Changes in Equity (2017: £37.9 million; 2016: £33.2 million).

The Consolidated Cash Flow Statement also shows the gross charge in the reconciliation between 'profit after tax' and 'cash flows from operating activities'. The co-insurance share of the charge is included in the change in trade and other payables line.

(i) The Approved Share Incentive Plan (the SIP)

Eligible employees qualified for awards under the SIP based upon the performance of the Group in each half-year period. The maximum award for each year is £3,600 per employee. The awards are made with reference to the Group's performance against prior year profit before tax. Employees must remain in employment for the holding period (three years from the date of award) otherwise the shares are forfeited.

The fair value of shares awarded is the share price at the date of award. Awards under the SIP are entitled to receive dividends, and, hence, no adjustment has been made to this fair value.

(ii) The Discretionary Free Share Scheme (the DFSS)

Under the DFSS, details of which are contained in the remuneration policy section of the Directors' Remuneration Report, individuals receive an award of free shares at no charge. Staff must remain in employment until the vesting date in order to receive shares. The maximum number of shares that can vest relating to the 2017 scheme is 3,205,433 (2016 scheme: 3,247,136).

The amount of 2017 award that actually vests is based on the growth in the Company's earnings per share (EPS) relative to a risk free return (RFR), for which LIBOR has been selected as a benchmark. This performance is measured over the three year period the award applies to. For the 2017 scheme, 50% of the shares awarded at the start of the three year vesting period are subject to these performance conditions.

The range of awards is as follows:

- If the growth in EPS is less than the RFR, no awards vest.
- EPS growth is equal to RFR – 10% of maximum award vests.
- To achieve the maximum award, EPS growth has to be 36 points higher than RFR over the three year period.

Between 10% and 100% of the maximum awards, a linear relationship exists.

For awards in 2016 and onwards there are now three performance measures attached to the 50% of shares awarded that are subject to performance conditions. These are three-year EPS growth vs. LIBOR, TSR vs. FTSE 350 (excluding investment companies), and ROE, weighted equally.

Performance measure	**Performance range**	
	Threshold	**Maximum**
EPS growth vs. LIBOR	Growth in line with LIBOR	Growth of 10% p.a. in excess of LIBOR
TSR vs. FTSE 350 (excluding investment companies)	Median	Upper Quartile
ROE	25%	55%

Awards under the DFSS are not eligible for dividends (although a discretionary bonus is currently paid equivalent to the dividend that would have been paid on the respective shareholding) and hence the fair value of free shares to be awarded under this scheme has been revised downwards (from the share price at the date on which awards were made) to take account of these distributions.

Number of free share awards committed at 31 December 2017

	Awards outstanding[*1]	Vesting date
SIP H214 scheme	536,613	March 2018
SIP H115 scheme	636,612	August 2018
SIP H215 scheme	523,877	March 2019
SIP H116 scheme	501,785	September 2019
SIP H216 scheme	560,476	March 2020
SIP H117 scheme	506,815	August 2020
DFSS 2015 scheme 1st award	190,275	March 2018
DFSS 2015 scheme 2nd award	2,828,913	September 2018
DFSS 2016 scheme 1st award	199,346	March 2019
DFSS 2016 scheme 2nd award	3,053,904	September 2019
DFSS 2017 scheme 1st award	238,024	March 2020
DFSS 2017 scheme 2nd award	2,882,243	September 2020
Total awards committed	12,658,883	

*1 Being the maximum number of awards expected to vest before accounting for expected staff attrition

During the year ended 31 December 2017, awards under the SIP H213 and H114 schemes and the DFSS 2014 scheme vested. The total number of awards vesting for each scheme is as follows.

Number of free share awards vesting during the year ended 31 December 2017

	Original awards	Awards vested
SIP H213 scheme	514,500	393,100
SIP H114 scheme	575,016	450,642
DFSS 2014 scheme 1st award	203,292	125,394
DFSS 2014 scheme 2nd award	2,481,806	1,504,972

The weighted average market share price at the date of exercise for shares exercised during the year was £18.51 (2016: £20.09).

9. Taxation

9a. Accounting policy

Income tax on the profit or loss for the periods presented comprises current and deferred tax.

(i) Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates that have been enacted or substantively enacted by the balance sheet date, and includes any adjustment to tax payable in respect of previous periods.

Current tax related to items recognised in other comprehensive income is also recognised in other comprehensive income and not in the income statement.

(ii) Deferred tax

Deferred tax is provided in full using the balance sheet liability method, providing for temporary differences arising between the carrying amount of assets and liabilities for accounting purposes and the amounts used for taxation purposes. It is calculated at the tax rates that have been enacted or substantially enacted by the balance sheet date and that are expected to apply in the period when the liability is settled or the asset is realised.

The principal temporary differences arise from carried forward losses, depreciation of property and equipment and share scheme charges. The resulting deferred tax is charged or credited in the income statement, except in relation to share scheme charges where the amount of tax benefit credited to the income statement is limited to an equivalent credit calculated on the accounting charge. Any excess is recognised directly in equity.

Deferred tax assets relating to carried forward losses are recognised only to the extent that it is probable that future taxable profits will be available against which the assets can be utilised. The probability of the availability of future taxable profits is determined by a combination of the classification of the status of the businesses holding cumulative tax losses and the business plan profit projections for that business, subject to appropriate stress testing.

9b. Taxation

	31 December 2017 £m	31 December 2016 £m
Current tax		
Corporation tax on profits for the year	**68.8**	53.2
(Over) provision relating to prior periods	**(3.7)**	(1.0)
Current tax charge	**65.1**	52.2
Deferred tax		
Current period deferred taxation movement	**3.1**	7.2
Under provision relating to prior periods	**3.7**	4.9
Total tax charge per Consolidated Income Statement	**71.9**	64.3

Factors affecting the total tax charge are:

	31 December 2017 £m	31 December 2016 £m
Profit before tax	**403.5**	278.4
Corporation tax thereon at effective UK corporation tax rate of 19.25% (2016: 20.00%)	**77.7**	55.7
Expenses and provisions not deductible for tax purposes	**0.9**	0.8
Non-taxable income	**(5.7)**	(7.2)
Impact of change in UK tax rate on deferred tax balances	**0.3**	—
Adjustments relating to prior periods	**(0.8)**	3.2
Impact of different overseas tax rates	**(5.7)**	(7.0)
Unrecognised deferred tax	**5.2**	18.9
Other differences	**—**	(0.1)
Total tax charge for the period as above	**71.9**	64.3

9c. Deferred income tax asset

Analysis of deferred tax asset

	Tax treatment of share schemes £m	Capital allowances £m	Carried forward losses £m	Fair value reserve £m	Other differences £m	Total £m
Balance brought forward at 1 January 2016	**7.1**	**2.7**	**9.9**	**—**	**0.9**	**20.6**
Tax treatment of share scheme charges through income or expense	(1.9)	—	—	—	—	(1.9)
Tax treatment of share scheme charges through reserves	0.5	—	—	—	—	0.5
Capital allowances	—	(5.1)	—	—	—	(5.1)
Carried forward losses	—	—	(5.0)	—	—	(5.0)
Other difference	—	—	—	(0.5)	(0.2)	(0.7)
Balance carried forward at 31 December 2016	**5.7**	**(2.4)**	**4.9**	**(0.5)**	**0.7**	**8.4**
Tax treatment of share scheme charges through income or expense	(2.4)	—	—	—	—	(2.4)
Tax treatment of share scheme charges through reserves	2.8	—	—	—	—	2.8
Capital allowances	—	(2.1)	—	—	—	(2.1)
Carried forward losses	—	—	(2.0)	—	—	(2.0)
Movement in fair value reserve	—	—	—	(4.1)	—	(4.1)
Other difference	—	—	—	—	(0.3)	(0.3)
Balance carried forward at 31 December 2017	**6.1**	**(4.5)**	**2.9**	**(4.6)**	**0.4**	**0.3**

Positive amounts presented above relate to a deferred tax asset position.

The UK corporation tax rate reduced from 20% to 19% on 1 April 2017. The average effective rate of tax for 2017 is 19.25% (2016: 20.00%). A further reduction to the main rate of corporation tax to 17% (effective from 1 April 2020) was enacted on 15 September 2016. This will reduce the Group's future current tax charge accordingly.

The deferred tax asset at 31 December 2017 has been calculated based on the rate at which each timing difference is most likely to reverse.

The deferred tax asset relating to carried forward losses of £13.9 million relates to losses incurred in the Group's US price comparison business compare.com, and is calculated at the local US rate of tax of 21% (2016: 35%). The recognised asset has been limited to the amount supported by forecast cash flows over the next five years. The forecasts and underlying assumptions have been reviewed and approved by the Board. In addition, the forecasts have been stressed for both revenue and profit reductions and the asset remains recoverable under the stressed scenarios.

At 31 December 2017 the Group had unused tax losses amounting to £166.1 million (2016: £142.7 million), relating to the Group's US businesses Elephant Auto and compare.com, for which no deferred tax asset has been recognised.

10. Other assets and other liabilities

10a. Accounting policy

(i) Property and equipment, and depreciation

All property and equipment is stated at cost less accumulated depreciation. Depreciation is calculated using the straight line method to write off the cost less residual values of the assets over their useful economic lives. These useful economic lives are as follows:

Improvements to short leasehold buildings	–	four to ten years
Computer equipment	–	two to four years
Office equipment	–	four years
Furniture and fittings	–	four years
Motor vehicles	–	four years

(ii) Impairment of property and equipment

In the case of property and equipment, carrying values are reviewed at each balance sheet date to determine whether there are any indications of impairment. If any such indications exist, the asset's recoverable amount is estimated and compared to the carrying value. The carrying value is the higher of the fair value of the asset, less costs to sell and the asset's value in use. Impairment losses are recognised through the income statement.

(iii) Leased assets

The rental costs relating to assets held under operating leases are charged to the income statement on a straight line basis over the life of the lease.

Leases under the terms of which the Group assumes substantially all of the risks and rewards of ownership are classed as finance leases. Assets acquired under finance leases are included in property and equipment at fair value on acquisition and are depreciated in the same manner as equivalent owned assets. Finance lease and hire purchase obligations are included in creditors and the finance costs are spread over the periods of the agreements based on the net amount outstanding.

(iv) Intangible assets

Goodwill

All business combinations are accounted for using the acquisition method. Goodwill has been recognised in acquisitions of subsidiaries, and represents the difference between the cost of the acquisition and the fair value of the net identifiable assets acquired.

The classification and accounting treatment of acquisitions occurring before 1 January 2004 have not been reconsidered in preparing the Group's opening IFRS balance sheet at 1 January 2004 due to the exemption available in IFRS 1 (First time adoption). In respect of acquisitions prior to 1 January 2004, goodwill is included at the transition date on the basis of its deemed cost, which represents the amount recorded under UK GAAP, which was tested for impairment at the transition date. On transition, amortisation of goodwill has ceased as required by IAS 38.

Goodwill is stated at cost less any accumulated impairment losses. Goodwill is allocated to cash generating units (CGUs) according to business segment and is reviewed annually for impairment.

The goodwill held on the balance sheet at 31 December 2017 is allocated solely to the UK Car Insurance segment.

Impairment of goodwill

The annual impairment review involves comparing the carrying amount to the estimated recoverable amount (by allocating the goodwill to CGUs) and recognising an impairment loss if the recoverable amount is lower. Impairment losses are recognised through the income statement and are not subsequently reversed.

The recoverable amount is the greater of the fair value of the asset less costs to sell and the value in use of the CGU.

The value in use calculations use cash flow projections based on financial budgets approved by management covering a three year period. Cash flows beyond this period are considered, but not included in the calculation.

The key assumptions used in the value in use calculations are those regarding growth rates and expected changes in pricing and expenses incurred during the period. Management estimates growth rates and changes in pricing based on past practices and expected future changes in the market.

The headroom above the goodwill carrying value is very significant, and there is no foreseeable event that would eliminate this margin.

Deferred acquisition costs

Acquisition costs comprise all direct and indirect costs arising from the conclusion of insurance contracts. Deferred acquisition costs represent the proportion of acquisition costs incurred that correspond to the unearned premiums provision at the balance sheet date. This balance is held as an intangible asset. It is amortised over the term of the contract as premium is earned.

Software

Purchased software is recognised as an intangible asset and amortised over its expected useful life (generally the licence term). Internally generated software is recognised as an intangible asset, with directly attributable costs incurred in the development stage capitalised. The internally generated software assets are amortised over the expected useful life of the systems and amortisation commences when the software is available for use.

The carrying value of software is reviewed every six months for evidence of impairment, with the value being written down if any impairment exists. Impairment may be reversed if conditions subsequently improve.

(iv) Provisions, Contingent Liabilities and Contingent Assets

Provisions are recognised when a legal or constructive obligation arises as a result of an event that occurred before the balance sheet date, when a cash-outflow relating to this obligation is probable and when the amount can be estimated reliably.

Where an obligation exists, but the likelihood of a cash out-flow or the amount is uncertain, or where there is a possible obligation arising from a past event that is contingent on a future event, a contingent liability is disclosed.

Contingent assets are possible assets that arise from past events, whose existence will be confirmed only by the occurrence or non-occurrence of future events. Where it is probable that a cash-inflow will arise from a contingent asset, this is disclosed.

10b. Property and equipment

	Improvements to short leasehold buildings £m	Computer equipment £m	Office equipment £m	Furniture and fittings £m	Total £m
Cost					
At 1 January 2016	25.7	47.8	15.2	8.2	96.9
Additions	1.3	3.4	1.1	0.8	6.6
Disposals	—	—	(0.2)	—	(0.2)
Foreign exchange movement	0.6	0.9	0.9	0.4	2.8
At 31 December 2016	27.6	52.1	17.0	9.4	106.1
Depreciation					
At 1 January 2016	10.0	33.4	12.6	6.0	62.0
Charge for the year	2.0	6.5	1.0	1.0	10.5
Disposals	—	—	(0.1)	—	(0.1)
Foreign exchange movement	0.4	0.6	0.6	0.1	1.7
At 31 December 2016	12.4	40.5	14.1	7.1	74.1
Net book amount					
At 1 January 2016	15.7	14.4	2.6	2.2	34.9
Net book amount					
At 31 December 2016	15.2	11.6	2.9	2.3	32.0
Cost					
At 1 January 2017	27.6	52.1	17.0	9.4	106.1
Additions	1.1	5.4	2.6	0.6	9.7
Disposals	—	(0.1)	—	(0.1)	(0.2)
Foreign exchange movement	—	(0.2)	0.1	(0.1)	(0.2)
At 31 December 2017	28.7	57.2	19.7	9.8	115.4
Depreciation					
At 1 January 2017	12.4	40.5	14.1	7.1	74.1
Charge for the year	2.5	5.6	1.0	1.0	10.1
Disposals	—	(0.1)	—	—	(0.1)
Foreign exchange movement	—	(0.1)	0.1	—	—
At 31 December 2017	14.9	45.9	15.2	8.1	84.1
Net book amount					
At 31 December 2017	**13.8**	**11.3**	**4.5**	**1.7**	**31.3**

The net book value of assets held under finance leases is as follows:

	31 December 2017 £m	31 December 2016 £m
Computer equipment	—	4.4

10c. Intangible Assets

	Goodwill £m	Deferred acquisition costs £m	Software[*1] £m	Total £m
At 1 January 2016	62.3	16.6	63.4	142.3
Additions	—	48.5	24.6	73.1
Amortisation charge	—	(43.2)	(12.6)	(55.8)
Disposals	—	—	(0.3)	(0.3)
Foreign exchange movement	—	1.5	1.5	3.0
At 31 December 2016	62.3	23.4	76.6	162.3
Additions	—	46.0	13.0	59.0
Amortisation charge	—	(48.4)	(13.8)	(62.2)
Disposals	—	—	—	—
Foreign exchange movement	—	(0.4)	0.7	0.3
At 31 December 2017	**62.3**	**20.6**	**76.5**	**159.4**

*1 Software additions include £6.1 million relating to internal development (2016: £21.1 million)

Goodwill relates to the acquisition of Group subsidiary EUI Limited (formerly Admiral Insurance Services Limited) in November 1999. It is allocated solely to the UK Car Insurance segment. As described in the accounting policies, the amortisation of this asset ceased on transition to IFRS on 1 January 2004. All annual impairment reviews since the transition date have indicated that the estimated recoverable value of the asset is greater than the carrying amount and therefore no impairment losses have been recognised. Refer to the accounting policy for goodwill for further information.

10d. Insurance and other receivables

	31 December 2017 £m	31 December 2016 £m
Insurance receivables[*1]	**737.6**	606.6
Trade receivables	**193.7**	170.1
Prepayments and accrued income	**8.4**	5.9
Total insurance and other receivables	**939.7**	782.6

*1 Insurance receivables at 31 December 2017 includes £42.7 million in respect of salvage and subrogation recoveries (2016: £37.7 million).

10e. Loans and advances to customers

	31 December 2017 £m	31 December 2016 £m
Loans and advances to customers	**66.2**	2.3
Total loans and advances to customers	**66.2**	2.3

Loans and advances to customers relate to the Admiral loans business.

10f. Trade and other payables

	31 December 2017 £m	31 December 2016 £m
Trade payables	**39.8**	35.6
Amounts owed to co-insurers	**130.7**	247.5
Amounts owed to reinsurers	**1,026.8**	690.5
Finance leases due within 12 months	—	0.1
Other taxation and social security liabilities	**62.0**	40.1
Other payables	**140.9**	112.4
Accruals and deferred income (see below)	**241.4**	166.0
Total trade and other payables	**1,641.6**	1,292.2

Of amounts owed to co-insurers and reinsurers, £938.4million (2016: £610.1 million) is held under funds withheld arrangements.

Analysis of accruals and deferred income:

	31 December 2017 £m	31 December 2016 £m
Premium receivable in advance of policy inception	**150.3**	92.4
Accrued expenses	**48.8**	53.1
Deferred income	**42.3**	20.5
Total accruals and deferred income as above	**241.4**	166.0

10g. Obligations under finance leases

Analysis of finance lease liabilities:

	At 31 December 2017			At 31 December 2016		
	Minimum lease payments £m	**Interest £m**	**Principal £m**	Minimum lease payments £m	Interest £m	Principal £m
Less than one year	—	—	—	0.1	—	0.1
Between one and five years	—	—	—	—	—	—
More than five years	—	—	—	—	—	—
	—	—	—	0.1	—	0.1

The fair value of the Group's lease obligations approximates to their carrying amount.

10h. Financial commitments

The Group was committed to total minimum obligations under operating leases on land and buildings as follows:

	31 December 2017 £m	31 December 2016 £m
Minimum payments due on operating leases		
Within one year	**12.1**	12.0
Within two to five years	**40.8**	42.1
Over five years	**113.7**	119.3
Total commitments	**166.6**	173.4

Operating lease payments represent rentals payable by the Group for its office properties.

11. Share capital

The Group's capital includes share capital and the share premium account, other reserves which are comprised of the fair value reserve and foreign exchange reserve, and retained earnings.

11a. Accounting policies

(i) Share capital

Shares are classified as equity when there is no obligation to transfer cash or other assets.

(ii) Dividends

Dividends are recorded in the period in which they are declared and paid.

11b. Dividends

Dividends were declared and paid as follows:

	31 December 2017 £m	31 December 2016 £m
March 2016 (63.4 pence per share, paid June 2016)	—	**175.4**
August 2016 (62.9 pence per share, paid October 2016)	—	**174.4**
March 2017 (51.5 pence per share, paid June 2017)	**143.7**	—
August 2017 (56.0 pence per share, paid October 2017)	**156.6**	—
Total dividends	**300.3**	**349.8**

The dividends declared in March represent the final dividends paid in respect of the 2015 and 2016 financial years. The dividends declared in August are interim distributions in respect of 2016 and 2017.

A final dividend of 58.0 pence per share (£163million) has been proposed in respect of the 2017 financial year. Refer to the Chairman's Statement and Strategic Report for further detail.

11c. Earnings per share

	31 December 2017 £m	31 December 2016 £m
Profit for the financial year after taxation attributable to equity shareholders	**334.2**	222.2
Weighted average number of shares – basic	**285,164,396**	282,419,324
Unadjusted earnings per share – basic	**117.2p**	78.7p
Weighted average number of shares – diluted	**285,751,149**	283,033,681
Unadjusted earnings per share – diluted	**117.0p**	78.5p

The difference between the basic and diluted number of shares at the end of 2017 (being 586,753; 2016: 614,357) relates to awards committed, but not yet issued under the Group's share schemes. Refer to note 8 for further detail.

11d. Share capital

	31 December 2017 £m	31 December 2016 £m
Authorised		
500,000,000 ordinary shares of 0.1 pence	**0.5**	0.5
Issued, called up and fully paid		
287,214,262 ordinary shares of 0.1 pence	**0.3**	—
284,352,270 ordinary shares of 0.1 pence	**—**	0.3
	0.3	0.3

During 2017 2,861,992 (2016: 2,764,317) new ordinary shares of 0.1 pence were issued to the trusts administering the Group's share schemes.

811,992 (2016: 764,317) of these were issued to the Admiral Group Share Incentive Plan Trust for the purposes of this share scheme to give a closing number at 31 December 2017 of 9,756,914 (31 December 2016: 8,944,922). These shares are entitled to receive dividends.

2,050,000 (2016: 2,000,000) shares were issued to the Admiral Group Employee Benefit Trust for the purposes of the Discretionary Free Share Scheme to give a closing number at 31 December 2017 of 18,861,948 (31 December 2016: 16,811,948). The Trustees have waived the right to dividend payments, other than to the extent of 0.001 pence per share, unless and to the extent otherwise directed by the Company from time to time.

The number of shares in issue at flotation was 258,595,400. There is one class of share with no unusual restrictions.

11e. Objectives, policies and procedures for managing capital

The Group manages its capital to ensure that all entities within the Group are able to continue as going concerns and also to ensure that regulated entities meet regulatory requirements with an appropriate margin. Excess capital above these levels within subsidiaries is paid up to the Group holding company in the form of dividends on a regular basis.

The Group's dividend policy is to make distributions after taking into account capital that is required to be held a) for regulatory purposes; b) to fund expansion activities; and c) as a further buffer against unforeseen events. This policy gives the Directors flexibility in managing the Group's capital.

The Group's regulatory capital requirements are discussed in the Group Financial Review within the Strategic Report.

11f. Group related undertakings

The Parent Company's subsidiaries are as follows:

Subsidiary	Class of shares held	% Ownership	Principal Activity
Incorporated in England and Wales			
Registered office: 9th Floor Brunel House, Fitzalan Road, Cardiff, CF24 0EB			
Admiral Law Limited	Ordinary	90	Legal company
Registered office: Admiral House, Queensway, Newport, NP20 4AG			
BDE Law Limited	Ordinary	90	Legal company
Registered office: Ellipse Ground Floor, Padley Road, Swansea, SA1 8AN			
Able Insurance Services Limited	Ordinary	100	Insurance Intermediary
Registered office: Greyfriars House, Greyfriars Road, Cardiff, CF10 3AL			
Inspop.com (France) Limited	Ordinary	100	Insurance Intermediary
Inspop.com Limited	Ordinary	100	Insurance Intermediary
Rastreator.com Limited	Ordinary	75	Insurance Intermediary
Registered office: Tŷ Admiral, David Street, Cardiff, CF10 2EH			
EUI Limited	Ordinary	100	Insurance Intermediary
Admiral Insurance Company Limited	Ordinary	100	Insurance company
Admiral Life Limited	Ordinary	100	Dormant*
Admiral Syndicate Limited	Ordinary	100	Dormant*
Admiral Syndicate Management Limited	Ordinary	100	Dormant*
Bell Direct Limited	Ordinary	100	Dormant*
Confused.com Limited	Ordinary	100	Dormant*
Diamond Motor Insurance Services Limited	Ordinary	100	Dormant*
Elephant Insurance Services Limited	Ordinary	100	Dormant*
Admiral Financial Services Limited	Ordinary	100	Financial services company
EUI (France) Limited	Ordinary	100	Insurance Intermediary
Preminen Price Comparison Holdings Limited	Ordinary	50	Insurance Intermediary
Preminen Dragon Price Comparison Limited	Ordinary	50 (indirect)	Insurance Intermediary
Incorporated in Gibraltar			
Registered office: 1st Floor, 24 College Lane, Gibraltar, GX11 1AA			
Admiral Insurance (Gibraltar) Limited	Ordinary	100	Insurance company
Incorporated in India			
Registered office: 514 JMD Regent Square, Mehrauli Gurgaon Road, Gurgaon, 122001, India			
Inspop Technologies Private Limited	Ordinary	100	Internet technology supplier
Incorporated in Spain			
Registered office: Paseo Castellana 163 4 Izq, 28046 Madrid			
Comparaseguros Correduría de Seguros, S.L., Sociedad Unipersonal	Ordinary	75 (indirect)	Insurance Intermediary
Admiral Europe Compañía de Seguros, S.A.	Ordinary	100	Insurance company
Registered office: Calle Albert Einstein, 10 41092 Sevilla			
Admiral Intermediary Services S.A.	Ordinary	100	Insurance Intermediary
Incorporated in the United States of America			
Registered office: Deep Run 1; Suite 400, 9950 Mayland Drive, Henrico, VA 23233			
Elephant Insurance Company	Ordinary	100	Insurance company
Elephant Insurance Services LLC	Ordinary	100	Insurance Intermediary
Grove General Agency Inc	Ordinary	100	Insurance Intermediary
Registered office: 140 East Shore Drive, Suite 300, Glen Allen, VA 23059			
compare.com Insurance Agency LLC	Ordinary	71.1 (indirect)	Insurance Intermediary
Inspop USA LLC	Ordinary	71.1	Insurance Intermediary

Incorporated in Mexico			
Registered office: Varsovia, 36, 5th floor, office 501, Colonia Juárez, Cuauhtemoc, Ciudad de Mexico			
Preminen Mexico Sociedad Anonima de Capital Variable	51.25 (indirect)	Insurance intermediary
Incorporated in Turkey			
Registered address: Esentepe MAH. Harman1 SK. Harmanci Giz Plaza 5 1 Sisli/ Istanbul			
Preminen Online Fiyat Karşılaştırma Hizmetleri Anonim Şirketi	50 (indirect)	Insurance intermediary

* Exempt from audit under S479A of Companies Act 2006

For further information on how the Group conducts its business across the UK, Europe and the US, refer to the Strategic Report.

11g. Related party transactions

Details relating to the remuneration and shareholdings of key management personnel are set out in the Directors' Remuneration Report. Key management personnel are able to obtain discounted motor insurance at the same rates as all other Group staff, typically at a reduction of 15%.

The Board considers that only the Executive Directors of Admiral Group plc are key management personnel. Aggregate compensation for the Executive Directors is disclosed in the Directors' Remuneration Report that will be included in the Group's 2017 Annual Report.

12. Reconciliations

The following tables reconcile significant key performance indicators and non-GAAP measures included in the Strategic Report to items included in the financial statements.

12a. Reconciliation of turnover to reported gross premiums written and Other Revenue as per the financial statements

	31 December 2017 £m	31 December 2016 £m
Gross premiums written after co-insurance per note 5b of financial statements	**1,927.7**	1,482.0
Premiums underwritten through co-insurance arrangements	**571.7**	711.9
Total premiums written before co-insurance arrangements	**2,499.4**	2,193.9
Other Revenue per note 7b of financial statements	**401.1**	360.6
	2,900.5	2,554.5
UK vehicle commission*1	**(1.0)**	(20.9)
Other*2	**38.9**	21.4
Turnover as per note 4b of financial statements	**2,938.4**	2,555.0
Intra-group income elimination*3	**19.8**	20.8
Total turnover	**2,958.2**	2,575.8

*1 During 2012 Admiral ceased earning Other Revenue from the sale of non-optional legal protection policies. At the same point, the Group began charging its panel of co- and reinsurers a vehicle commission. The substance of these changes meant that the total premiums written increased by the amount of revenue that was previously earned from the sale of non-optional legal protection policies. The vehicle commission included within Other Revenue is therefore eliminated from the turnover measure to avoid double counting.

*2 Other reconciling items represent co-insurer and reinsurer shares of Other Revenue in the Group's Insurance businesses outside of UK Car Insurance.

*3 Intra-group income elimination relates to price comparison income earned in the Group from other Group companies.

12b. Reconciliation of claims incurred to reported loss ratios, excluding releases on commuted reinsurance

	31 December 2017			31 December 2016		
	UK Motor	**International Motor**	**Group**	UK Motor	International Motor	Group
	£m	**£m**	**£m**	£m	£m	£m
Net insurance claims	**210.5**	**97.0**	**347.1**	290.1	76.5	394.6
Net claims handling expenses	**(10.5)**	**—**	**(11.1)**	(11.0)	—	(11.2)
Reinsurer cap impact	**—**	**(0.1)**	**(0.1)**	—	(6.4)	(6.4)
Reserve releases on commuted reinsurance	**73.8**	**—**	**73.8**	17.1	—	17.1
Other adjustment*1	**—**	**(2.9)**	**(2.9)**	—	(1.0)	(1.0)
Adjusted net claims	**273.8**	**94.0**	**406.8**	296.2	69.1	393.1
Net insurance premium revenue	**429.1**	**127.5**	**619.1**	404.3	94.3	548.8
Other adjustment*1	**—**	**(4.5)**	**(4.5)**	—	(3.0)	(3.0)
Adjusted net insurance premium revenue	**429.1**	**123.0**	**614.6**	404.3	91.3	545.8
Reported loss ratio	**63.8%**	**76.4%**	**66.2%**	73.3%	75.7%	72.0%

*1 Other adjustments relate to additional products underwritten in the Group's international car insurance businesses. The contribution from these products is reported as ancillary income and as such the amounts are excluded for the purpose of calculation of loss and expense ratios.

12c. Reconciliation of expenses related to insurance contracts to reported expense ratios

	31 December 2017			31 December 2016		
	UK Motor	**International Motor**	**Group**	UK Motor	International Motor	Group
	£m	**£m**	**£m**	£m	£m	£m
Net insurance expenses	**46.4**	**52.4**	**107.7**	46.2	41.1	94.0
Net claims handling expenses	**10.5**	**—**	**11.1**	11.0	—	11.2
Reinsurer cap impact	**—**	**(3.7)**	**(3.7)**	—	(1.5)	(1.5)
Intra-group expenses elimination*1	**12.5**	**7.3**	**19.8**	13.7	7.1	20.8
Other adjustment*2	**—**	**(1.6)**	**(1.6)**	—	(2.0)	(2.0)
Adjusted net expenses	**69.4**	**54.4**	**133.3**	70.9	44.7	122.5
Net insurance premium revenue	**429.1**	**127.5**	**619.1**	404.3	94.3	548.8
Other adjustment*1	**—**	**(4.5)**	**(4.5)**	—	(3.0)	(3.0)
Adjusted net insurance premium revenue	**429.1**	**123.0**	**614.6**	404.3	91.3	545.8
Reported expense ratio	**16.2%**	**44.2%**	**21.7%**	17.5%	49.0%	22.4%

*1 The intra-group expenses elimination amount relates to aggregator fees charged by the Group's price comparison entities to other Group companies.

*2 Other adjustments relate to additional products underwritten in the Group's international car insurance businesses. The contribution from these products is reported as ancillary income and as such the amounts are excluded for the purpose of calculation of loss and expense ratios.

12d. Reconciliation of statutory profit before tax to Group's share of profit before tax

	31 December 2017 £m	31 December 2016 £m
Reported profit before tax per the Consolidated Income Statement	**403.5**	278.4
Non-controlling interest share of profit before tax	**1.9**	5.9
Group's share of profit before tax	**405.4**	284.3
Approximate impact of reduction in UK Ogden discount rate	—	105.4
Group's share of profit before tax (Pre Ogden)	**405.4**	389.7

13. Statutory Information

The financial information set out above does not constitute the company's statutory accounts for the years ended 31 December 2017 or 2016. Statutory accounts for 2016 have been delivered to the registrar of companies, and those for 2017 will be delivered in due course. The auditors have reported on those accounts; their reports were (i) unqualified, (ii) did not include a reference to any matters to which the auditors drew attention by way of emphasis without qualifying their report and (iii) did not contain a statement under section 498 (2) or (3) of the Companies Act 2006.

Consolidated financial summary

Basis of preparation

The figures below are as stated in the Group financial statements preceding this financial summary and issued previously. Only selected lines from the income statement and balance sheet have been included.

Income statement

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Total premiums	**2,499.4**	2,193.9	1,805.2	1,675.6	1,737.6
Net insurance premium revenue	**619.1**	548.8	467.0	464.9	483.0
Other Revenue	**401.1**	360.6	319.8	332.5	327.8
Profit commission	**67.0**	54.3	85.4	71.8	99.3
Investment and interest income	**41.7**	53.1	32.6	15.4	14.3
Net revenue	**1,128.9**	1,016.8	904.8	884.6	924.4
Net insurance claims	**(347.1)**	(394.6)	(226.5)	(259.1)	(303.0)
Net expenses	**(366.9)**	(332.4)	(298.5)	(270.2)	(251.2)
Operating profit	**414.9**	289.8	379.8	355.3	370.2
Finance costs	**(11.4)**	(11.4)	(11.1)	(4.6)	—
Profit before tax	**403.5**	278.4	368.7	350.7	370.2

Balance sheet

	2017 £m	2016 £m	2015 £m	2014 £m	2013 £m
Property and equipment	**31.3**	32.0	34.9	32.3	12.4
Intangible assets	**159.4**	162.3	142.3	107.2	92.8
Deferred income tax	**0.3**	8.4	20.6	22.9	17.0
Reinsurance assets	**1,637.6**	1,126.4	878.7	829.8	821.2
Insurance and other receivables	**1,005.9**	784.9	537.1	435.3	445.6
Financial investments	**2,697.8**	2,420.2	2,323.5	2,194.1	1,896.9
Cash and cash equivalents	**326.8**	326.6	265.3	255.9	187.9
Total assets	**5,859.1**	4,860.8	4,202.4	3,877.5	3,473.8
Equity	**655.8**	581.7	632.9	580.9	524.1
Insurance contracts	**3,313.9**	2,749.5	2,295.0	2,097.4	1,901.3
Subordinated and other financial liabilities	**224.0**	224.0	223.9	203.8	—
Trade and other payables	**1,641.6**	1,292.2	1,015.0	965.8	1,013.7
Current tax liabilities	**23.8**	13.4	35.6	29.6	34.7
Total equity and total liabilities	**5,859.1**	4,860.8	4,202.4	3,877.5	3,473.8

Alternative Performance Measures

Throughout this report, the Group uses a number of Alternative Performance Measures (APMs); measures that are not required or commonly reported under International Financial Reporting Standards, the Generally Accepted Accounting Principles (GAAP) under which the Group prepares its financial statements.

These APMs are used by the Group, alongside GAAP measures, for both internal performance analysis and to help shareholders and other users of the Annual Report and financial statements to better understand the Group's performance in the period in comparison to previous periods and the Group's competitors.

The table below defines and explains the primary APMs used in this report. Financial APMs are usually derived from financial statement items and are calculated using consistent accounting policies to those applied in the financial statements, unless otherwise stated. Non financial KPIs incorporate information that cannot be derived from the financial statements but provide further insight into the performance and financial position of the Group.

APMs may not necessarily be defined in a consistent manner to similar APMs used by the Group's competitors. They should be considered as a supplement rather than a substitute for GAAP measures.

Turnover	Turnover is defined as total premiums written (as below) and other revenue. It is reconciled to financial statement line items in note 12a to the financial statements. This measure has been presented by the Group in every Annual Report since it became a listed Group in 2004. It reflects the size of the revenue generated by the Group and analysis of this measure over time provides a clear indication of the size and growth of the Group. The measure was developed as a result of the Group's business model. The core UK Car insurance business has historically shared a significant proportion of the risks with Munich Re, a third party reinsurance Group, through a co-insurance arrangement, with the arrangement subsequently being replicated in some of the Group's international insurance operations. Premiums and claims accruing to the external co-insurer are not reflected in the Group's income statement and therefore presentation of this metric enables users of the Annual Report to see the scale of the Group's insurance operations in a way not possible from taking the income statement in isolation.
Total Premiums Written	Total premiums written are the premiums written within the Group, including co-insurance. It is reconciled to financial statement line items in note 12a to the financial statements. This measure has been presented by the Group in every Annual Report since it became a listed Group in 2004. It reflects the total premiums written by the Group's insurance intermediaries and analysis of this measure over time provides a clear indication of the growth in premiums, irrespective of how co-insurance agreements have changed over time. The reasons for presenting this measure are consistent with that for the Turnover APM noted above.

Group's share of Profit before Tax	Group's share of profit before tax represents profit before tax, excluding the impact of Non-controlling Interests. It is reconciled to statutory profit before tax in note 12d to the financial statements. This measure is useful in presenting the limit of the Group's exposure to the expenditure incurred in starting up new businesses and demonstrates the 'test-and-learn' strategy employed by the Group to expansion into new territories. In 2016, Group's share of Profit before Tax is presented on a 'Pre Ogden' and a 'Post Ogden basis. 'Pre Ogden' represents the Group's share of estimated profit before tax before the impact of the reduction in the UK Ogden discount rate confirmed by the Lord Chancellor in February 2017.
Underwriting result (profit or loss)	For each insurance business an underwriting result is presented showing the segment result prior to the inclusion of profit commission, other income contribution and instalment income. It demonstrates the insurance result, i.e. premium revenue and investment income less claims incurred and insurance expenses.
Loss Ratio	Reported loss ratios are expressed as a percentage of claims incurred divided by net earned premiums. There are a number of instances within the Annual Report where adjustments are made to this calculation in order to more clearly present the underlying performance of the Group and operating segments within the Group. The calculations of these are presented within note 12b to the accounts and explanation is as follows. UK reported motor loss ratio: Within the UK insurance segment the Group separately presents motor ratios, i.e. excluding the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to i) exclude the impact of reserve releases on commuted reinsurance contracts and ii) exclude claims handling costs that are reported within claims costs in the income statement. International insurance loss ratio: As for the UK motor loss ratio, the international insurance loss ratios presented exclude the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to exclude the claims element of the impact of reinsurer caps as inclusion of the impact of the capping of reinsurer claims costs would distort the underlying performance of the business. Group loss ratios: Group loss ratios are reported on a consistent basis as the UK and international ratios noted above. Adjustments are made to i) exclude the impact of reserve releases on commuted reinsurance contracts, ii) exclude claims handling costs that are reported within claims costs in the income statement and iii) exclude the claims element of the impact of international reinsurer caps.

Expense Ratio	Reported expense ratios are expressed as a percentage of net operating expenses divided by net earned premiums. There are a number of instances within the Annual Report where adjustments are made to this calculation in order to more clearly present the underlying performance of the Group and operating segments within the Group. The calculations of these are presented within note 12c to the accounts and explanation is as follows. UK reported motor expense ratio: Within the UK insurance segment the Group separately presents motor ratios, i.e. excluding the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to i) include claims handling costs that are reported within claims costs in the income statement and ii) include intra-group aggregator fees charged by the UK price comparison business to the UK insurance business. International insurance expense ratio: As for the UK motor loss ratio, the international insurance expense ratios presented exclude the underwriting of other products that supplement the car insurance policy. The motor ratio is adjusted to i) exclude the expense element of the impact of reinsurer caps as inclusion of the impact of the capping of reinsurer expenses would distort the underlying performance of the business and ii) include intra-group aggregator fees charged by the overseas price comparison businesses to the international insurance businesses. Group expense ratios: Group expense ratios are reported on a consistent basis as the UK and international ratios noted above. Adjustments are made to i) include claims handling costs that are reported within claims costs in the income statement, ii) include intra-group aggregator fees charged by the Group's price comparison businesses to the Group's insurance businesses and iii) exclude the expense element of the impact of international reinsurer caps.
Combined Ratio	Reported combined ratios are the sum of the loss and expense ratios as defined above. Explanation of these figures is noted above and reconciliation of the calculations are provided in notes 12b and 12c.
Return on Equity	Return on equity is calculated as profit after tax for the period attributable to equity holders of the Group divided by the average total equity attributable to equity holders of the Group in the year. This average is determined by dividing the opening and closing positions for the year by two. The relevant figures for this calculation can be found within the Consolidated Statement of Changes in Equity.
Group Customers	Group customer numbers reflect the total number of cars, households and vans on cover at the end of the year, across the Group. This measure has been presented by the Group in every Annual Report since it became a listed Group in 2004. It reflects the size of the Group's customer base and analysis of this measure over time provides a clear indication of the growth. It is also a useful indicator of the growing significance to the Group of the different lines of business and geographic regions.
Effective Tax Rate	Effective tax rate is defined as the approximate tax rate derived from dividing the Group's profit before tax by the tax charge going through the income statement. It is a measure historically presented by the Group and enables users to see how the tax cost incurred by the Group compares over time and to current corporation tax rates.

2016 Financial Highlights

As referred to earlier in this report, the Group's 2016 annual report disclosed financial highlights including and excluding the impact of the change in Ogden discount rate as follows:

- Group's share of profit before tax[*1] (Pre Ogden) of £389.7 million (2015: £376.8 million)
- Group's share of profit before tax[*1] (Post Ogden) of £284.3 million (2015: £376.8 million)
- Group statutory profit before tax of £278.4 million (2015: £368.7 million)
- Earnings per share (Pre Ogden) of 109.6 pence (2015: 107.3 pence)
- Earnings per share (Post Ogden) of 78.7 pence (2015: 107.3 pence)
- Final dividend of 51.5 pence per share, bringing full year dividend to 114.4 pence per share (2015: 114.4 pence)
- Return on equity[*1] of 37% (2015: 49%)
- Group turnover[*1] of £2.58 billion (2015: £2.12 billion)
- Group net revenue of £1.0 billion (2015: £0.9 billion)
- Group customers[*1] of 5.15 million (2015: 4.43 million)
- UK insurance customers[*1] of 4.12 million (2015: 3.61 million)
- International car insurance customers[*1] of 864,200 (2015: 673,000)
- Group's share of price comparison profit before tax[*1] of £2.7 million (2015: loss of £7.2 million)
- Statutory price comparison result of £2.9 million loss (2015: loss of £15.5 million)
- Solvency ratio (post dividend)[*2] of 212% (2015: 206%)

- Almost 9,000 staff eligible to receive free shares worth a total of £3,600 each in the employee share scheme based on the full year 2016 results